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401(k) UPDATE

3RD QUARTER 2016

Deciding How Much to Save in Your 401(k) Plan

How much should you save in your 401(k) plan? As much as you can seems like a pretty good answer.

Saving as much as possible is a laudable goal, but it doesn't exactly qualify as planning. To make sure you're on track for retirement, you should have an idea of how much you need to set aside to reach your retirement goal.

Know Your Limits

Before you start coming up with an annual savings target, it's important to understand how much you're allowed to contribute to a 401(k) plan. In 2016, workers younger than 50 can save $18,000 in a 401(k), 403(b), or similar plan, while those age 50 or older can save $24,000 annually.

Those contribution limits apply to tax-deductible 401(k) contributions. Some plans may allow you to make after-tax contributions above and beyond that amount. The total limit on contributions (a combination of what you save and what your employer contributes on your behalf) is $53,000 annually for individuals under 50 and $59,000 annually for those age 50 or older.

Contribution limits often go up slightly every year (they increased from $17,500 in 2014 to $18,000 in 2015); so if you're an aggressive saver, you'll also want to adjust accordingly.

At a Minimum, Get Your Match

The first rule of 401(k) plans is to save enough to get your full employer match. You've probably heard it before, but not contributing enough to get your employer's matching contributions is like leaving free money on the table. Even if you're not impressed with your company's 401(k) plan and would prefer to save in some other way, it still makes sense to at least get the match.

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Straightening Out Your Financial Accounts

It's not uncommon to accumulate things over the years without taking time to straighten them out periodically. That applies to our finances as well as our possessions. How many credit cards do you carry? How many stocks and bonds, brokerage accounts, and individual retirement accounts (IRAs) do you own? It's not just a matter of finding time to keep track of different financial assets. Often, these assets are acquired without a clear-cut strategy. If you feel it's time to straighten out your finances, consider these steps:

- ✔ Make a list of all your assets and debts. List each one individually, so you have a sense of how many different accounts you have.
- ✔ Go through each one of your investments. Make sure you understand why you own each one. Assess the prospects of each investment and decide whether you should continue to own it.
- ✔ Look for ways to consolidate accounts. Try to get down to one bank account, one brokerage account, and one IRA.
- ✔ Assess your outstanding debts. Look for ways to reduce the cost of your borrowing. ❍❍❍

Deciding How Much

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How Much Do I Really Need?

So you know how much the government will let you save and that you should be contributing enough to get your employer match. But how much should you be setting aside to prepare yourself for a comfortable retirement? That's the ultimate question.

Unfortunately, there's no magic number, because every individual situation is different. People have different tolerances for risk, market performance varies over time, and everyone has their own idea of an ideal retirement. That's why it's best to talk to a financial advisor who can help you determine how much you need. In the meantime, there are a few rules of thumb that may help you get a sense of where you stand.

Some experts use a simple formula based on your age and salary to give people a rough idea of how much they'll need to save. Here it is:

- ✔ By age 35, your savings should total at least your annual salary.
- ✔ By age 45, your savings should total at least three times your annual salary.
- ✔ By age 55, your savings should total at least five times your annual salary.
- ✔ By age 67, your savings should total at least eight times your annual salary.

In other words, if you earn $75,000 a year at age 35, you should have at least that much saved in your 401(k) and other retirement accounts. If your salary hits $125,000 annually by age 67, you'll need $1 million. But if you're earning less at age 67 — say $80,000 a year — $640,000 might be enough. Also keep in mind you'll need to make sure your spouse is saving enough for retirement if you're married.

Another guideline suggests saving a certain percentage of your salary every year for retirement. Between 10% and 15% is usually the recommended number. If you started saving when you were young, your target savings percentage is usually lower; but if you procrastinated, you're more likely to be looking at having to save 15% or even 20% of your pay to get you on track to a comfortable retirement. The good news is your employer match counts in that number, so if your goal is to save 10% and your employer match is 5%, you only need to save an additional 5% of your pay to reach that 20% total. ❍❍❍

Big Life Changes?

Does your financial plan fit with your current life? If it's more than a few years old, there's a good chance it doesn't. After all, your financial plan isn't just a static document. It's a dynamic set of guidelines that need to be adjusted whenever your life changes.

Here are five times in your life when you may need to make big changes to your financial plan.

When You Get Married — Getting married is often the first major life event that leads people to think about updating their financial plan — or getting a financial plan in the first place. Once you get married, you also need to marry your finances. The process should ideally start before you get married as you review your debts and income and talk about your goals as a couple. In fact, if yours is a long-term relationship in which your finances are intertwined, you may also want to have a shared financial plan addressing all of these issues, even if you're not married.

When You Have Children — Having a baby means big changes to your life, including your finances. If one parent will be staying home with the little one, you may need to make adjustments to your budget to account for the reduced income. Other issues to consider include updating your insurance to include new dependents, setting up a college savings account, and making sure you have adequate life insurance.

Finally, if you don't already have one, it's absolutely crucial that you have a will and other estate-planning documents.

When You Change Jobs — Chances are you will change jobs at least once, if not numerous times, before you retire. To ensure your career shifts result in steps up on the financial ladder, you'll want to review your financial plan. Making decisions about your retirement savings is paramount, but you'll also probably want to think about issues like insurance, other benefits, and taxes.

When You Get Divorced — If your marriage ends, a financial checkup is a must. Your income will probably be changing, which may necessitate changes in your budget. You will also need to think about changing the beneficiaries on your retirement and insurance plans, developing a new savings strategy, and more.

When You Retire — As you prepare for this major life change, you'll need to make sure you are prepared financially for life after full-time work. This includes creating a retirement budget that fits your lifestyle and a plan for drawing down your savings in a responsible way. ❍❍❍

7 Psychological Investing Traps

Sometimes when it comes to investing, volatile markets aren't your worst enemy. It's actually you. That's because money and logic don't always go hand in hand. Unfortunately, our brain often plays tricks on us, causing even the savviest of investors to make decisions that don't really make a lot of sense, from panic selling to ignoring opportunities.

In fact, the problem of psychological investing traps is so pervasive, there's a whole field dedicated to studying it called behavioral finance. Researchers in this discipline look at the way psychology affects how we make financial decisions, and some of what they've discovered is pretty interesting. Knowing about these traps can help you avoid them and make you a better investor.

Here are seven psychological traps to keep in mind.

Sunk Cost Bias

The sunk cost bias has to do with the all-too-common tendency to stick with something, whether a bad boyfriend or bad investment, long after it's clear that it's not worth it anymore. Still, because you've invested a certain amount of time or money, you're reluctant to give it up. In investing, you might end up hanging on to a stock long after you should sell it in the vain hope that you'll eventually come out ahead. But in these cases, it's better to cut your losses rather than to hang on to a loser.

Familiarity Bias

Most of us are biased toward those things that are familiar to us. We head to restaurants we've been to before and follow the same roads to work, because we know what to expect. With investing, familiarity bias involves favoring investments that are familiar to you. You might prefer to invest in the company you work for or big-name businesses that are in the news. This could cause you to overlook important opportunities you don't know that much about.

Anchoring

Anchoring is the process of getting attached to a particular reference point — such as the price you paid for a stock — and using that to guide future decisions. Or you might fixate on a stock's previous high, even though that price was an anomaly. Anchoring is why you think you got a great deal when buying a $60,000 car for $50,000, even though the car's really worth closer to $40,000.

Whether you're buying stocks or cars, anchoring involves using a single piece of information to determine what a stock or other investment should be worth while also discounting more relevant information, such as a company's fundamentals or broader economic trends. Unfortunately, avoiding anchoring is difficult, but considering all available information before choosing an investment can help.

Focusing Too Much on the Recent Past

Recency bias is the tendency to make decisions or judgments based on information that's relatively new or recent. For example, during times when the market is up, people may ignore or discount the possibility of a market decline. Or, if a certain category of stocks has done poorly recently, people may conclude that those stocks *always* have negative returns, even if the dip is an anomaly. As with other psychological investing, you can avoid this one by doing your best to consider the entire universe of information at your fingertips, not just what happened yesterday.

Following the Herd

While following trends might be fine for fashionistas, it's not always a smart investing move. Yet herd investing is an all-too-easy trap to fall into. If everyone is telling you that now's the time to get into a certain hot investment, you may feel you need to act fast so you don't miss out. But just because something is popular, doesn't make it a good investment. Blindly following the herd without first consulting your own financial goals and plan doesn't make you a smart investor.

Overconfidence

Most of us like to think we're smarter than the average person, but when it comes to investing, you're probably not. Yet if you hit it big with a certain investment, you may attribute that success to your skill rather than what it really is — luck. That can cause you to repeat the same way of thinking.

Panic

Investing isn't for the faint of heart. When the market takes a sudden dip it's easy to panic, which can lead you to make bad decisions, such as selling at a big loss, rather than riding out the natural hills and valleys of investing. Making these emotionally driven choices can cost you a lot of money. When making investing decisions, make sure they're based on evidence, not your initial gut reaction to the day's events. ❍❍❍

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Does the Gender Wage Gap Still Exist?

Each fall, after compiling information gathered from its national monthly surveys of approximately 60,000 households from the previous year, the U.S. Bureau of Labor Statistics (BLS) publishes the *Highlights of Women's Earnings*, which notes the average weekly wage and salary earnings of both men and women employed full-time and the female-to-male earnings ratio. In 2014, that ratio was 82.5%, pointing to the lowest-ever gender pay gap of the 73.9% of all men and 61.1% of all women employed full-time.

For 2014, BLS reported that 12% of women worked 35–39 hours per week (compared to just 5% of men), while 26% of men worked 41 or more hours per week (compared to 15% of women) — two figures that could account for some of the reported wage discrepancy.

The good news is women's real weekly earnings have been on the upswing for the past three decades. In fact, men at all educational levels have trailed women in wage increases for the past 35 years. For example, female employees with a bachelor's degree or higher saw an overall 31% increase in wages, compared to a 15% increase among men. This gender wage gap trend increases as educational levels decrease. For example, while men with a high school diploma encountered a 20% *decrease* in wages since 1979, women at the same educational level saw a 3% increase.

When examining the gender wage gap by occupation, though the number of women workers lead men in four out of seven occupational categories, their weekly median earnings matched those of men in just one field (health practitioner support technologists and technicians). The highest gender discrepancy was in legal occupations, with women earning just 56.7% of men. ❍❍❍

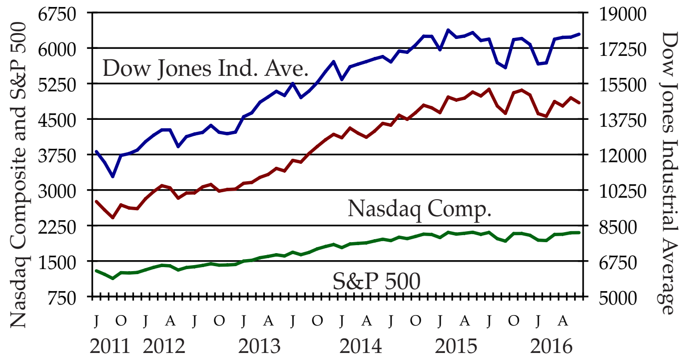
Market Data

	Month End			% Change	
	Jun 16	May 16	Apr 16	YTD	12 Mon.
Dow Jones Ind.	17929.99	17787.20	17773.64	2.9%	1.8%
S&P 500	2098.86	2096.96	2065.30	2.7	1.7
Nasdaq Comp.	4842.67	4948.05	4775.36	-3.3	-2.9
Wilshire 5000	21621.46	21618.32	21287.12	2.5	0.0
Gold	1320.75	1212.10	1285.65	24.3	12.8
				Dec 15	Jun 15
Prime rate	3.50	3.50	3.50	3.50	3.25
Money market rate	0.27	0.25	0.25	0.27	0.34
3-month T-bill rate	0.26	0.34	0.25	0.26	0.02
20-yr. T-bond rate	1.99	2.22	2.24	2.60	2.81
Dow Jones Corp.	2.78	2.89	2.80	3.43	3.25
Bond Buyer Muni	3.82	3.90	3.94	4.22	4.47

Sources: *Barron's, Wall Street Journal*

Stock Indices

July 2011 to June 2016



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Approximately 22% of long-term-care costs are paid out of pocket, while private insurance paid for 18%. One in five elderly Americans will incur more than $25,000 in lifetime out-of-pocket long-term-care costs before they die (Source: *REP.*, November 2015).

The lifetime probability of becoming disabled in at least two activities of daily living or being cognitively impaired for individuals age 65 and over is 68% (Source: Centers for Disease Control and Prevention Long-Term Care Services, 2015).

In a recent study, retirees over the age of 50 who downsized their home did so for the following reasons: 64% wanted to lower monthly housing costs, 44% believed a larger home was too much work, 18% had fewer family members in the household, and 18% wanted to free up cash (Source: Merrill Lynch and Age Wave, 2015).

Individuals age 65 years and older spend 33.9% of their annual budget on housing, 15.9% on transportation, 13.4% on health care, 12.5% on food, 5.8% on cash contributions, 5.5% on entertainment, and 12.7% on other expenses. Average annual expenditures totalled $43,635 (Source: Bureau of Labor Statistics Consumer Expenditure Survey, 2014). ❍❍❍