Galaria Capital Management LLC

I. GALARIA, MD, ChFC, AAMS, CRPS®, C(k)P™, PPC
CHARTERED FINANCIAL CONSULTANT
REGISTERED INVESTMENT ADVISOR
ACCREDITED ASSET MANAGEMENT SPECIALIST

ALZENA SALEEM, CRPS®
REGISTERED INVESTMENT ADVISOR
CHARTERED RETIREMENT PLANS SPECIALIST

Tel: 800-957-1079 • Cell: 248-212-4252 • Fax: 800-578-1562

401(k) UPDATE

1ST QUARTER 2014

Retirement Derailers

In a February 2013 survey of 1,000 employed and retired Americans ages 50–70 with $100,000 or more in investable assets, 90% of respondents said they had experienced a "retirement derailer" — a specific circumstance that seriously impacted their retirement plans or reduced their retirement savings (Source: Ameriprise Financial, February 2013). Approximately 37% of respondents had experienced five or more such circumstances. The top 10 derailers cited by survey respondents were:

- ✔ Supporting one or more grown children or grandchildren
- ✔ Receiving pension benefits that are lower than expected or not getting an anticipated pension at all
- ✔ Losing some retirement savings because of unsuccessful investments
- ✔ Taking Social Security benefits before reaching full retirement age
- ✔ Experiencing a job loss or major career change
- ✔ Not getting an anticipated inheritance
- ✔ Having to spend a lot of money on home repairs
- ✔ Taking care of an aging parent or other family member
- ✔ Paying for significant medical bills that aren't covered by insurance
- ✔ Using retirement savings to pay bills

To make sure your retirement isn't derailed, consider these tips:

1. Start saving now. When asked what they would have done differently, 57% of survey respondents said they wished they would have started saving earlier. Indeed, because of the power of compounding, starting to save for retirement just a few years earlier can make a huge difference at the end.

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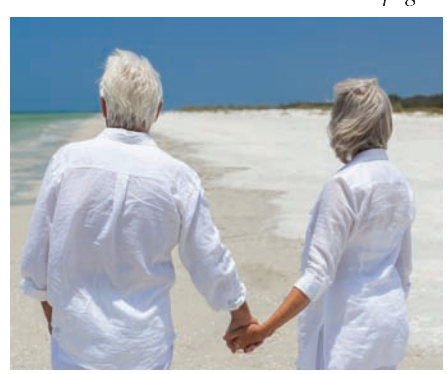

Avoid This Mistake

Finding a way to live decades in retirement without worrying about running out of money can seem like an overwhelming task. That goal depends on many variables and assumptions. With all the potential for missteps, what is the one mistake you want to avoid at all costs? Dipping into your retirement savings. Unfortunately, since the funds in your 401(k) plan or individual retirement account (IRA) belong to you, they often seem like a tempting place to get funds needed for other purposes.

Tax laws don't help, since they often provide tax-advantaged ways for you to access those funds. Loans from 401(k) plans are generally not taxable events. When leaving an employer, you can withdraw money from your 401(k) plan (you will have to pay income taxes and possibly a 10% early withdrawal penalty). Contributions to Roth IRAs can be withdrawn at any time with no tax consequences. Withdrawals from traditional IRAs before the age of 59½ can be made under certain circumstances.

Saving for retirement is a difficult task for most people, without making it more difficult by using retirement funds for other purposes. Even if the amount seems small, don't withdraw funds from your retirement account for anything other than retirement. ❍❍❍

Retirement Derailers

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For example, a 30-year-old puts $400 per month into a tax-deferred retirement plan (like a 401(k) plan), which generates $1,015 per month in retirement income for 30 years beginning at age 65. For the 35 years that the individual is saving (from age 30 to 65), she will have contributed $168,000 to the account. A 45-year-old makes the same amount in total contributions ($168,000 at a rate of $700 per month) to the same retirement account. Even though she has contributed the same dollar amount, because her savings compounded for 15 fewer years, she has about 20% less during retirement (Source: Ameriprise Retirement Calculator).

2. Save now to spend later. About 33% of survey respondents said that if they had spent less on discretionary expenses like dining out and vacations during their working years, they would be better prepared for retirement. This is where it's critical to make a budget for current expenditures, a retirement budget, and a plan for how to make retirement work. That plan may involve trimming current expenditures, scaling back retirement expectations, or both.

3. Prepare a retirement plan. Unless you plan to work until the day you die, a retirement plan should be an integral part of your overall investment plan — and no matter what your circumstances, a investment plan is a very important way to decrease the likelihood that your life plans will be derailed by unexpected circumstances that inevitably arise.

Think seriously about things you might want to spend money on before or during retirement and then build that into your retirement plan. Obviously, unexpected circumstances do arise; but if you can anticipate major financial needs, put them into your financial plan.

4. Review the implications of taking Social Security benefits before reaching full retirement age. For people who were near retirement age when the Great Recession hit and lost their jobs, taking Social Security at age 62 probably seemed like a far better idea than trying to get a new job at that age. But it's important to understand that while the government will allow you to start taking benefits at age 62, it will penalize you for it: for an individual born in 1960 or later who retires at age 62 instead of age 67 (full retirement age), monthly benefits will be reduced by 30%.

5. Have a candid conversation with your parents or other family members whom you might be caring for in old age. Talk about how they'll want to be cared for and the means they have to pay for such care. Urge them to consider long-term-care insurance, which can greatly ease the financial burden of paying for their care in a world in which the average cost for an assisted-living facility is nearly $42,000 a year and more than $90,000 a year for a nursing home (Source: *The Wall Street Journal*, October 12, 2012).

If you have already been impacted by one or more of the derailers listed above — or any other circumstance that has impacted your retirement plans, here are five ways you can get back on track:

1. Take advantage of catch-up provisions. If you are 50 or older, you can contribute more tax-deferred income to a 401(k) plan or IRA (these are called catch-up contributions). In 2014, you can contribute $5,500 more to a 401(k) or 403(b) plan and $1,000 more to an IRA.

2. See where you can trim expenses to save more. Boosting your savings to get back on track for retirement might be easier than you think: most of us spend more than we realize on discretionary things like meals out, clothing, travel, and other personal expenditures. Take a hard look at your budget and see where you can cut back — even $100 per month can make a difference in your retirement savings.

3. Evaluate your investment choices. Review your current asset allocation. Many individuals close to retirement pulled money out of the stock market during the financial crisis; and if you haven't since reassessed your asset allocation, you're probably missing out on significant investment opportunities as the equity market rebounds. That said, you want to ensure that your asset allocation is appropriate (not too heavy in equities) given your age and target retirement date.

4. Reevaluate your retirement lifestyle. Most financial advisors recommend that you be able to replace at least 70% of your pre-retirement income during retirement. So if you planned to spend 85% of your current income in retirement, you might be able to scale back and still retire comfortably.

5. Work longer. When Social Security was created in 1935, the average American 65-year-old man could expect to live to age 78 and the average American woman to 80. Today, the average American 65-year-old man can expect to live to 84 and the average American 65-year-old woman to 86 (Source: Social Security Administration, 2013). In that context, working five more years might not be such a sacrifice — and it can make a big difference in the retirement lifestyle that you can afford. For a 60-year-old who has a retirement account balance of $250,000 today and contributes $2,000 a year, pushing retirement back from age 65 to age 70 would yield an additional $158,410 in total savings (not counting Social Security) — adding $300 per month to the individual's retirement income. ❍❍❍

When Can You Retire?

When can you retire? It depends — on how old you are; how much you have saved; the extent to which you'll rely on Social Security, a pension, or tax-advantaged retirement accounts; how your investments perform; the kind of lifestyle you want in retirement; and how long you'll live.

Factors to Consider When Setting a Target Retirement Age

1. What kind of lifestyle do you want in retirement? Given the same monthly savings rate, there is a tradeoff between when you can retire and the kind of lifestyle you can have once you do. For example, if you're currently 50 years old, earn $50,000 per year, and plan to live to age 90, for about the same monthly savings amount, you can retire at age 65 with 50% of your preretirement income or at age 70 with 100% of your preretirement income (Source: Kiplinger Retirement Savings Calculator). There's no right or wrong answer here, it's simply a tradeoff you'll have to make.

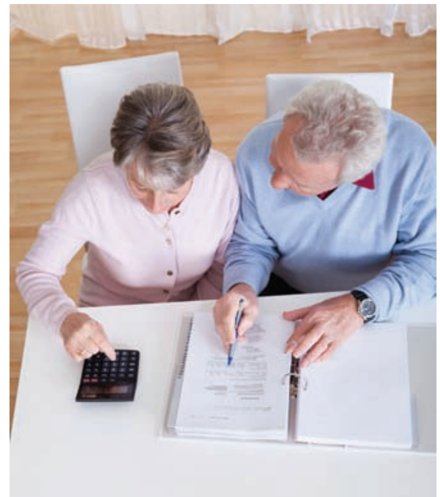
2. What does Social Security consider to be your full retirement age? The government will allow you to start receiving Social Security benefits at age 62, but those benefits will be less than what you'd receive if you waited until your full retirement age. For example, for an individual born in 1960 or later who retires at age 62 instead of age 67 (his full retirement age), his monthly benefits will be reduced by 30%. For individuals born before 1960, "full retirement age" ranges from 65 to 66 and 10 months, and the reduction in benefits for retiring at age 62 ranges from 20% to 29.17%.

Of course, if you're not counting on Social Security for retirement income, then you can retire whenever you want and wait until your full retirement age to start taking Social Security benefits.

3. What do your pension plan and other retirement plans consider to be full retirement age? Like Social Security, most pension plans have a certain minimum age at which they will begin paying benefits (at a reduced rate), and a certain age at which you become eligible to start receiving full benefits. Similarly, tax-advantaged retirement plans, like 401(k) plans and IRAs, penalize distributions (except in certain circumstances) before age 59½.

Important to note: While most people focus on the earliest age at which they can retire, it's also important to understand when you may be *required* to start taking retirement benefits or distributions from retirement accounts. 401(k)s and 403(b)s require minimum distributions beginning at age 70½ (unless you're still working, in most cases), as do traditional IRAs.

If you would like to retire at age 62 but the math just isn't working out, you might consider partial retirement. By continuing to generate income even after you've left the workplace, you can retire earlier than if you're not generating any income at all.



Ways to Partially Retire

✔ **Work part-time.** Working part-time, either at your current job or another one, is one way to continue generating income while still having more time to pursue the retirement activities you've been looking forward to. Some people enjoy working a few hours every day, a couple of days a week, or even just a few months out of the year, depending on what the job is.

✔ **Consult.** You've likely spent many decades honing your skills in a particular job or industry. And while some employers might be wary of hiring older workers full time, they're often eager to tap the expertise of older workers on a contract basis. So consulting can be a good way to continue earning income while also freeing up time to golf, play with the grandchildren, and whatever else you've been putting off for retirement.

✔ **Sell your wares.** If you plan to do craft-related activities in retirement anyway, why not consider selling your wares? Online craft sites make selling homemade items relatively easy. If you join a local craft-making group, you may find the activity both financially and socially rewarding. ❍❍❍

Make Saving a Habit

If you haven't started saving or aren't saving enough, here are some tips:

Take full advantage of payroll saving plans. Payroll deduction is a great financial innovation. With one authorization form, you can start a savings program that works for you without any more effort.

Aim to max out your company match. When a company offers you a matching contribution, it's like they are saying, "Here's some free money. Want it?"

Treat saving as a bill. The old adage for saving is, "Pay yourself first." The trick is to treat saving like any other bill. Name an amount and a date to pay it, then make the payment when it comes due.

Set annual goals for account balances. You can never reach a goal if you don't have one. Specific annual targets for your account balances become incentives to save; and by dividing the difference between your current balance and your target, you can easily derive the periodic amount you need to contribute.

Devote your raises to saving. When you get a raise, don't forget to increase your savings. If you can afford to, bank the entire raise. If you can't do that, at least increase your savings by a portion of the raise.

Save your loose change. Keep a savings jar and at the end of the week, put your loose change in it. You may also want to put bills below a specific denomination in the savings jar. At the end of the month, deposit the money in savings.

The tips above can take some of the pain out of creating a new habit or adjusting an existing one to help you pursue your goals. ❍❍❍

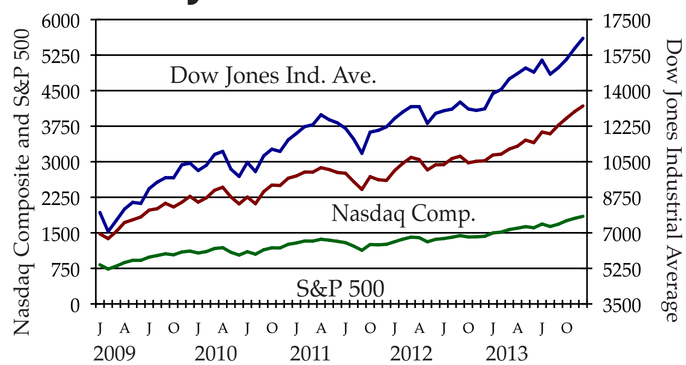
Market Data

	Month End			% Change	
	Dec 13	Nov 13	Oct 13	2013	2012
Dow Jones Ind.	16576.66	16086.41	15545.75	26.5%	7.3%
S&P 500	1848.36	1805.81	1756.54	29.6	13.4
Nasdaq Comp.	4176.59	4059.89	3919.71	38.3	15.9
Wilshire 5000	19413.17	18947.89	18449.85	29.8	14.1
Gold	1201.50	1245.00	1324.00	-27.7	5.9
				Dec 12	Dec 11
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.43	0.42	0.42	0.51	0.49
3-month T-bill rate	0.07	0.08	0.05	0.09	0.03
20-yr. T-bond rate	3.61	3.54	3.41	2.56	2.63
Dow Jones Corp.	3.11	2.99	2.98	2.70	3.74
Bond Buyer Muni	5.13	5.08	5.11	4.11	4.85

Sources: *Barron's, Wall Street Journal*

Stock Indices

January 2009 to December 2013



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Approximately 37% of wealthy parents have fully disclosed family wealth to their children (Source: *2012 U.S. Trust Insights on Wealth and Worth*).

The average decrease in American median wealth from 2007 to 2010 is 47% (Source: National Bureau of Economic Research, 2013).

The median share of household net worth represented by the principal residence for the richest 20% of U.S. households is 30%, while it represents 67% of net worth for the next 60% of U.S. households (Source: Desautels Faculty of Management at McGill University, 2013).

In 2012, the average amount spent by the average retiree household was $31,400, while the average working household spent $39,800 (Source: Center for Retirement Research at Boston College, 2013).

Participation rates in defined-contribution plans, such as 401(k) plans, remain at an all-time high of 76%. Plans that automatically enroll employees have an 83% participation rate — 18% higher than plans without an automatic enrollment feature. The average savings rate among workers subject to automatic enrollment is 6.7%, half a percent below the average contribution rate for all workers (7.2%) (Source: *AAII Journal*, October 2012). ❍❍❍