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401(k)

UPDATE

1ST QUARTER 2015

The Sooner the Better

According to a survey on retirement readiness by the Employee Benefits Research Institute, only 14% of Americans are confident that they will be able to maintain a comfortable lifestyle after retirement; among those, about 60% have less than \$25,000 in savings (so depending on age, they will likely *not* be able to maintain a comfortable lifestyle after retirement). One of the biggest problems in retirement planning is people put it off too long or rely solely on one

account or investment vehicle. The key to a successful retirement (whatever that looks like for you) is starting early and evaluating often.

Developing a retirement plan can be quite overwhelming, but there are some easy steps to take to jump-start your plan and increase your retirement success. Here are five:

Step 1: Set goals. Define what a successful retirement looks like to you. How old do you want to be when you retire? What kind of

lifestyle will you have? How much money will you need? Write your goals down and use them as a driving force in your retirement planning.

Step 2: Seek professional guidance to develop a plan. Once you know what you want to achieve, it is important to sit down with a financial advisor and devise a plan on how you will reach those goals. There are many options in retirement planning depending on your investment personality, your age, and your income. A financial advisor will walk you through all of the factors to consider and help you formulate an appropriate plan.

Step 3: Follow the plan. Open the necessary accounts and start putting money into them every month. If you are just starting out and can only afford to save \$50 a month, do that. Small amounts can

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Changing Life Insurance Needs

Your life insurance needs will typically change over the years:

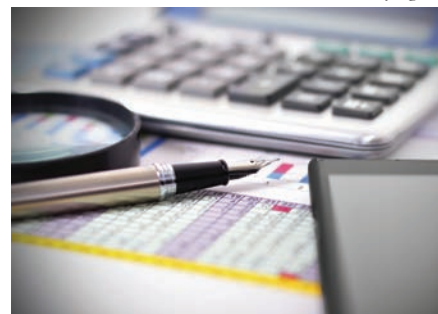
Just starting out — Young, single adults may have little need for life insurance. With no major debts and no one else counting on their income, the death benefit provided by life insurance may not be needed.

Married with no children — If it takes both salaries just to make ends meet, you may want to purchase insurance to replace your income.

Two incomes with children — The death of either spouse can create a financial hardship. Even if only one spouse works, the death of the nonworking spouse can require additional funds. You may want to consider first-to-die insurance.

Middle age with children — You should reassess your insurance again as your children approach college age, since you may need to increase coverage to fund their education in the event of your death.

Children out of college — Your need for life insurance may decrease when your children become independent. On the other hand, you may find you now have different needs for insurance. ○○○



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The Sooner

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be meaningful over the long term.

Step 4: Contribute to your 401(k) plan. If your employer offers a sponsored plan and matches contributions, you are literally leaving money behind if you don't contribute. At the very least, contribute as much as your employer will match. A 401(k) plan is an easy way to save for retirement, because the money comes straight out of your paycheck every month. And while a 401(k) doesn't require your active management, as with any investment, you should review it once a year to make sure that you are comfortable with the amount of money that you are contributing, your investment allocations, and the way your account is being managed — and make changes if necessary.

Step 5: Revisit your plan regularly. Circumstances in life are always changing. You get married, you have a child or children, your goals change, your job changes. Don't leave your retirement plan behind; revisit your plan regularly to make sure that it works for you and your unique circumstances.

Following these five steps is an easy way to jump-start your retirement plan. It doesn't matter how old you are, where you are in your life, or how much money you make — now is the right time to start saving for your retirement. ○○○



Debt and Your Retirement

Most people's vision of retirement not only involves freedom from work but also freedom from debt. A debt-free retirement is a laudable goal, but it's one that has become increasingly difficult for many to achieve: two-thirds of people between the ages of 65 and 74 have some form of debt (Source: University of Michigan Retirement Research Center, September 2013).

The Debt-Free Retirement Goal — When you retire, you stop actively earning income and start living on your savings. If you're still paying off debt, those payments will be another fixed expense. By going into retirement debt free, you'll lower your living expenses.

Reducing Debt before Retirement — If at all possible, you'll want to eliminate your debt before you retire. High-interest credit card debt can be a significant burden, so you'll want to eliminate it as quickly as possible. Look for areas in your budget where you can cut back and make extra debt payments, or consider a second job.

Getting debt-free before retirement may mean aligning your mortgage pay-off date with your retirement date; you may be able to bring your mortgage pay-off date closer by making extra payments. But that accelerated pay-off plan might not be right for everyone. If you have a relatively low-interest mortgage, no other debt, and are already maxing out your retirement savings, you may feel comfortable sticking with your standard repayment plan, especially if you can get more from investing the money.

One thing you shouldn't do: take money out of your retirement

accounts to pay off credit card or mortgage debt. If you focus all your financial resources on paying off your loans, you run the risk of retiring with inadequate savings. Another potential misstep: prioritizing debt payoff over saving. While you don't want to be saddled with excessive debt, you also don't want to end up cash poor in retirement, without enough money to meet everyday expenses.

Debt in Retirement — Unfortunately, many people still end up nearing retirement holding a significant amount of debt. If that's your situation, you have several options. One is to delay retirement for a few years while you concentrate on paying off debt. Plus, if you continue to work, you're not tapping your nest egg, and it can continue to grow. In addition, if you delay claiming Social Security, your monthly payment may increase by up to 8% a year until you reach age 70.

If you must enter retirement with debt, you may need to pare down your lifestyle — traveling less frequently, moving to a smaller home, or giving up your boat or RV — to reduce debt and minimize the risk of outliving your retirement savings. You could also continue to work part-time or as a consultant. That can bring in extra income, and many people enjoy a more gradual transition to full retirement.

Finally, know that going into retirement with debt poses some other specific risks. While most creditors can't garnish your Social Security payments, the federal government is an exception. If you owe back taxes, student loans, alimony, child support, or certain other types of payments, you may lose up to 15% of your Social Security benefit. ○○○

Estate Planning and Retirement Accounts

For many people, retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), are their most significant assets. While you may think you'll need every bit of money in those accounts for your retirement, what would happen if you die at an early age? You should include these accounts in your estate plan so heirs inherit them with minimal estate- and income-tax effects. Some strategies to consider include:

✓ **Review your beneficiary designations.** These assets are distributed based on beneficiary designations, not your will or other estate planning documents. Thus, you should name primary as well as contingent beneficiaries. Make sure you understand how your assets will be distributed if a primary beneficiary dies before you do. For instance, if your primary beneficiaries are your children and one child dies before you, do you want that child's share to go to your remaining children or to that child's children? Review your beneficiary designations after major life changes, such as marriage, divorce, or a child's birth.

✓ **Consider rolling your 401(k) plan assets over to an IRA.** Now that 401(k) plans must allow nonspouse beneficiaries to with-

draw funds over their life expectancy, there is not as much need to roll over 401(k) plan assets to an IRA. However, with IRAs, you will often have many more investment options for your plan assets. Also, you may want to roll the amount over to a Roth IRA, but will first need to roll over to a traditional IRA.

✓ **Split an IRA when there are multiple beneficiaries.** When there is more than one nonspouse beneficiary for an inherited IRA, distributions must be taken over the oldest beneficiary's life expectancy. By splitting the IRA into separate accounts, each beneficiary can take distributions over his/her life expectancy. You can split the account while you are alive or your beneficiary can do so by December 31 of the year following your death. Separating the account is especially important when one of the beneficiaries is not an individual or qualifying trust, such as a charitable organization. If you die before required distributions begin at age 70½, the entire balance must be paid out in five years. If you die after required distributions begin, the balance must be paid out over your remaining life expectancy. When the account is split, the individual beneficiary can take distributions over his/her life expectancy.

✓ **Make sure your spouse understands the rules for inheriting an IRA.** Your spouse should be careful not to roll the balance over to a spousal IRA too quickly. Once the balance is rolled over, some planning opportunities are lost. For instance, spouses under age 59½ can make withdrawals from the original IRA without paying a penalty. Once the account is rolled over, withdrawals before age 59½ would result in a 10% federal income tax penalty. Also, spouses who are older than the original owner can delay distributions by

retaining the IRA. The surviving spouse does not have to take distributions until the deceased spouse would have attained age 70½, even if the surviving spouse is over that age. The spouse may want to disclaim a portion of the IRA, which must be done within nine months of the original owner's death. If the account is rolled over, that disclaimer can't be made. Thus, it is usually best for the surviving spouse to determine his/her financial needs before rolling over the IRA balance.

✓ **Consider rolling your traditional IRA balances over to a Roth IRA.** All taxpayers can now convert from a traditional IRA to a Roth IRA regardless of income levels. You must pay income taxes on the taxable amount of the conversion, but those taxes can be paid with funds outside the IRA. That preserves the IRA's value and reduces your taxable estate. Your heirs will then receive qualified distributions free from income taxes, including all future appreciation on the balance.

✓ **Teach your heirs the benefits of stretching out withdrawals from inherited IRAs.** After an IRA is inherited, a traditional deductible IRA still retains its tax-deferred growth and a Roth IRA retains its tax-free growth. Your heirs should extend this growth for as long as possible. If the IRA has a designated beneficiary, which includes individuals and certain trusts, the balance can be paid out over the beneficiary's life expectancy. Spouses have additional options that can stretch payments out even longer. Your heirs can elect to take the entire balance immediately, paying any income taxes due. Make sure to stress to heirs the importance of taking withdrawals as slowly as possible. ○○○



Multiple Plans for Retirement

Many variables are used to design a plan for retirement, and none of them are easy to predict. These variables can seem especially difficult to predict if you are many years away from retirement. Get just one variable wrong, and you may not be able to retire in the style you desire. So, you may want to prepare three different plans to give you an idea of what could happen under different scenarios.

A bare bones plan — This plan would envision a subsistence-level retirement, just meeting your basic needs with no luxuries. You would tally your expenses for housing, food, transportation, health care, and other necessities. Unnecessary expenses like travel and dining out would not be considered in this plan. Income would include Social Security benefits, pension benefits, and other predictable income sources. This plan helps you determine the minimum amount needed to just survive during retirement.

A moderate plan — This plan adds some fun expenditures to the bare bones plan, including travel, entertainment, and dining out. This plan would involve increased levels of savings to support the additional expenditures.

The dream retirement — This plan incorporates all your desires for retirement, perhaps extensive travel, relocation, or expensive hobbies. On the income side, this plan would require the largest savings level and assume the best-case scenario for portfolio returns.

Developing three plans will hopefully provide motivation to increase your savings in order to attain your dream retirement. This will also show you what would happen if you don't save enough or your investment returns aren't high enough to fund your dream retirement. ○○○



Market Data

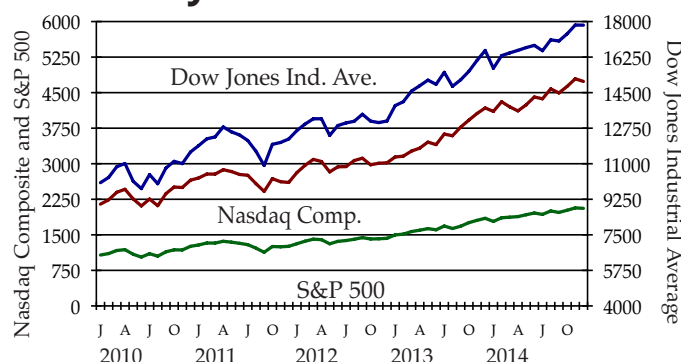


	Month End			% Change	
	Dec 14	Nov 14	Oct 14	2014	2013
Dow Jones Ind.	17823.07	17828.24	17390.52	7.5%	26.5%
S&P 500	2058.90	2067.56	2018.05	11.4	29.6
Nasdaq Comp.	4736.05	4791.63	4630.74	13.4	38.3
Wilshire 5000	21424.58	21463.11	20999.49	10.4	29.8
Gold	1199.25	1182.75	1164.25	-0.2	-27.7
				Dec 13	Dec 12
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.43	0.43	0.42	0.43	0.51
3-month T-bill rate	0.04	0.02	0.02	0.07	0.09
20-yr. T-bond rate	2.47	2.78	2.73	3.61	2.56
Dow Jones Corp.	3.08	2.89	2.88	3.11	2.70
Bond Buyer Muni	4.31	4.38	4.35	5.13	4.11

Sources: Barron's, Wall Street Journal

Stock Indices

January 2010 to December 2014



Past performance does not guarantee future results.

Thoughts about Retirement Planning

When asked how they feel about living to the age of 100, 36% of centenarians said blessed, 31% said happy, and 12% said surprised. Approximately 53% of the centenarians lived independently, without the support of a caregiver (Source: UnitedHealthcare, 2014).

Almost 65% of baby boomers said they plan to work past age 65 or do not plan to retire, while 52% expect to continue working after retirement on at least a part-

time basis (Source: Transamerica Retirement Survey, 2014).

The average length of retirement for those turning 65 in 2014 is 19 years. The average 401(k) balance at the end of 2013 was \$89,300, up 16% from 2012 (Source: Money, May 2014).

GenXers, individuals born between 1962 and 1981, reported that their retirement savings dropped 15% over the last two years, from median retirement sav-

ings of \$70,400 in 2012 to \$59,800 today. During the same time period, the percentage of GenXers lacking confidence in having sufficient savings to live comfortably in retirement doubled from 20% in 2012 to 42% today (Source: InsuranceNews-Net Magazine, March 2014).

Of the 75.3 million hourly rate workers in the U.S., 4.7% earn the federal minimum wage or less (Source: Time, March 10, 2014). ○○○