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401(k) UPDATE

2ND QUARTER 2014

# Planning for Retirement throughout Your Life

After working 40 or 50 years, you could find yourself retired for another 20 or 30 years. To support yourself without a job for 20 or 30 years, you should probably be planning for retirement during your entire working life. However, your concerns and strategies for retirement will change as you age. Consider these tips:

## In Your 20s

While you may just be getting started in your career, don't squander the long time period before retirement that can help your retirement funds grow and compound. Some strategies to consider include:

✔ **Start saving for retirement now.** Saving even small amounts can help you accumulate significant sums by retirement age. For instance, if you invest $2,000 per year from age 25 to age 65 in a tax-deferred account earning 8% annually, you could potentially accumulate $518,113 by age 65. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment vehicle.)* Try to save at least 10% of your income, but if you find that difficult to do, at least start saving something. Get in the habit of saving at a young age, before you get used to spending all your income.

✔ **Investigate different retirement savings vehicles.** If your employer offers a 401(k) plan, start contributing as soon as you can. You should contribute at least enough to take full advantage of any matching contributions offered by your employer, which can significantly increase your savings. For instance, assume you earn $50,000 per year and your employer matches 50 cents on every dollar of contributions up to 6% of your salary. If you contribute 6%, you will make a contribution of $3,000 and your employer will contribute $1,500.

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## Your Stock Allocation

Some factors to consider when deciding how much to allocate to stocks include:

✔ **Your risk tolerance** — The advantage of including both stocks and bonds in your portfolio is that when one category is declining, the other category will hopefully offset this decline.

✔ **Your time horizon** — The longer your time horizon for investing, the more risk you can typically tolerate in your portfolio, since you have more time to overcome any significant downturns. Certainly, individuals with short time horizons, perhaps five years or less, should be very cautious about how much to allocate to stocks.

✔ **Your return needs** — Your need to emphasize income or growth is likely to change over your life. When you are trying to accumulate significant assets for a goal far in the future, you may want to allocate more of your mix to stocks. However, when your needs for a predictable income stream become more important, such as when retirement approaches, you may want to allocate more to bonds. ❍❍❍



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# Planning for

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If your employer doesn't offer a 401(k) plan, contribute to an individual retirement account (IRA), either traditional or Roth. Investigate the differences to determine which is better for your situation.

## In Your 30s

Typically, even though your income is rising, your expenses are also growing as you buy a home and start a family. However, don't lose sight of retirement, since you still have significant time before retirement to help your funds grow. Consider these tips:

**Start thinking about retirement.** Give some thought to how you want to spend your retirement and how much it will cost. While you may feel that retirement is too far away to gauge these things, putting a rough price tag on your retirement and calculating how much you need to save can provide significant motivation in saving for that retirement.

**Devise strategies to keep saving.** Look for ways to remain committed to saving, even as your expenses are increasing. For instance, whenever you receive a raise, put some of it into your 401(k) plan so you don't get used to spending that money. Before incurring a large new expense, such as a new car or home, look at the impact the additional expense will have on your retirement.

## In Your 40s

While you still have quite a while before retirement, it's time to get serious about saving for retirement. Especially if you haven't saved much during your 20s and 30s, you need to really commit to saving for retirement. Some tips to consider include:

**Save the maximum in your 401(k) plan.** Don't make excuses; just make sure you are saving the maximum in your 401(k) plan. Also look at contributing to an IRA.

**Review your investment strategy.** Take a look at all your investments, both inside and outside of retirement accounts. Does your strategy make sense and will it help you reach your retirement goals?

## In Your 50s

Retirement is no longer that far away. It's time to assess where you stand and whether your retirement plans are realistic. Consider these tips:

**Look seriously at your retirement plans.** Make sure you have an accurate assessment of how much money you'll need in retirement and compare that to your estimated retirement income sources. If you are short, consider revising your plans. You may need to work longer, scale back your retirement plans, or save more.

**Take advantage of catch-up contributions.** In addition to making the maximum contributions to 401(k) plans and IRAs, take advantage of catch-up contributions once you turn 50. In 2014, you can make a $5,500 catch-up contribution to your 401(k) plan, if permitted by the plan, and a $1,000 catch-up contribution to an IRA.

**Try to increase your savings.** By now, some of your larger expenses will be behind you, such as funding a child's college educa-

tion, and you can divert those sums to your retirement savings.

## In Your 60s and Beyond

This is the period when people typically transition from a working life to retirement life. Some strategies to consider include:

**Finalize your retirement plans.** Go through your expenses and expected retirement income sources one more time to make sure you haven't forgotten anything. Determine when you can start drawing retirement benefits, such as Social Security, Medicare, and pension plans. Before you leave your job, make sure the timing is right, and you'll be able to comfortably support yourself during retirement.

**Plan before withdrawing your retirement savings.** Before you start withdrawals from your 401(k) plans and IRAs, consider all relevant factors. You don't want to drain those funds too quickly.

**Consider working on at least a part-time basis.** Even if you think you have sufficient funds for your retirement, consider working at least part-time during the early years of your retirement. This will help keep you active while also supplementing your retirement savings. It is better to work now than to find out late in retirement, when your health may not permit you to work, that you have run out of retirement savings.

To ensure adequate retirement savings, you need to plan for retirement throughout your life. ❍❍❍

# The Vital Importance of Disability Insurance

Without question, the death of the family breadwinner is devastating, but there's one condition that might be even more excruciating: a disability that renders you unable to work to support yourself and your family. Unfortunately, more people are financially protected against the former than they are against the latter.

From the Council for Disability Awareness, here are some facts about disability in the United States:

- ✔ Some 37 million Americans — 12% of the population — are classified as disabled, and more than half of them are in their working years, ages 18 to 64.
- ✔ One out of every four of today's 20-year-olds will become disabled before they retire, and one out of eight will be disabled for five or more years.
- ✔ The average long-term disability lasts more than two and a half years.
- ✔ 65% of working Americans say they couldn't cover normal living expenses if they lost their employment income for a year, and 38% say they couldn't pay their bills for more than three months.
- ✔ About 100 million workers — 69% of those in the private sector — have no long-term disability insurance.

One factor that contributes to the widespread lack of disability insurance coverage is the belief that Worker's Compensation insurance will cover most wage earners' needs if they can't report to work. But statistics show that belief is an illusion: only 5% of all disabling conditions are the result of workplace accidents. The rest are the result of illness and injury that have nothing to do with people's jobs — like chronic pain, cancer, heart disease, and mental disorders.

In view of the financial threat that disability poses, it's vitally important that you understand the kinds of disability insurance available, how they work, and how and where you can get them.

## Short-Term Disability Insurance

Depending on the policy, short-term disability insurance usually provides you with 50% to 70% of your work-related income, usually for between 10 to 26 weeks — although some policies will cover you longer. Generally, there's a waiting period of one to two weeks before benefit checks start if you're disabled by illness; if you're injured, coverage usually starts right away.

Short-term group disability insurance is frequently a part of the benefits packages at many companies. You can obtain a private policy from one of the many insurance companies in the market. Unlike a group policy, to qualify for a private, individual policy, you'll have to answer medical questions or undergo a medical examination. Private policies are more expensive, but come with one advantage over an employer-provided policy: benefits from private policies are tax-free, while those paid out by an employer-sponsored plan are subject to income taxes. Another advantage is portability: a private policy covers you no matter where you work, but you lose employer coverage if you change jobs.

## Long-Term Disability Insurance

Like short-term disability, long-term policies usually pay 50% to 70% of your working income. The difference is that long-term coverage kicks in only after your short-term coverage ends. Depending on the policy, coverage can last for five years or until you reach the age of 65, when Social Security benefits begin.

Another difference concerns whether you are able to work at another type of job. Some policies will pay you full benefits if you can't continue in the same profession but are able to work at another kind of job. These are called own-occupation policies and, as you might expect, are more expensive than policies that trim benefits if you can obtain limited employment in another occupation. In general, long-term policy benefits will stop if you're able to earn 80% or more of your predisability income.

## Social Security Disability Insurance (SSDI)

The Social Security Administration provides free disability coverage; but for many people, it's a bad idea to count on it alone. For one thing, SSDI benefits aren't based on your current income but your average lifetime income. SSDI payments typically range between $500 and $2,000 a month; at the end of 2012, the average monthly benefit was just $1,130.

Second, the waiting period for SSDI benefits to begin is five months, during which time the Social Security Administration determines if you meet their definition of severely disabled — that you will be disabled for at least a year, and you're not able to perform any job that pays you at least $1,040 per month ($1,740 per month if you're blind). Using those criteria, 65% of all SSDI claim applications were denied last year. ❍❍❍

## Finding Money to Save

Everyone knows that they should be saving at least 10% of their gross income for retirement, but that can seem like an impossible goal after paying all your bills. However, don't just figure that you can't come close to saving 10% of your income without looking at the after-tax cost.

For instance, assume you earn $50,000 annually and your employer matches 50 cents for every dollar you contribute to the 401(k) plan, up to 6% of your pay. So if you put 6% of your pay, or $3,000, in the plan, your employer will match 3%, or $1,500. Your contribution really costs less than 6%, because the money is taken out before income taxes. If you are in the 25% tax bracket, your $3,000 contribution will save $750 in taxes, or 1.5% of your pay. Between your contributions and your employer's match, you will contribute 9% of your pay toward retirement, but it will only cost you 4.5% of your pay.

Made over long periods of time, those levels of contributions can help significantly in funding your retirement. If you contribute $4,500 annually starting at age 30, you would accumulate $837,460 by age 65 with an investment return of 8%. *(This example is provided for illustrative purposes only and is not indicative of the return of a specific investment.)*

Also take a look at individual retirement accounts (IRAs). While you won't get an employer match, you can contribute to a deductible IRA, if eligible, and contribute pretax dollars, which reduces your contribution's cost by your marginal income tax rate. In 2014, you can contribute a maximum of $5,500 to an IRA, and individuals over age 50 can make an additional $1,000 catch-up contribution. ❍❍❍

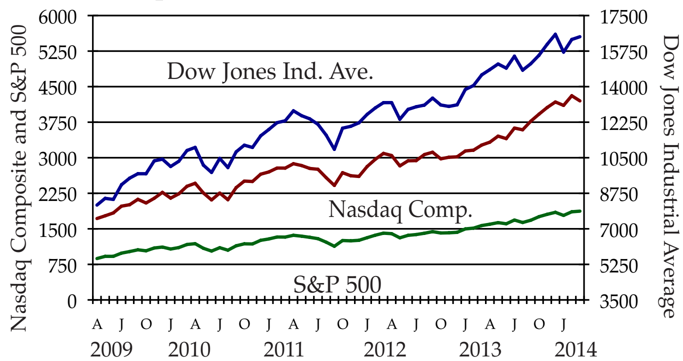
## Market Data

| | Month End | | | % Change | |
|---|---|---|---|---|---|
| | Mar 14 | Feb 14 | Jan 14 | YTD | 12 Mon |
| Dow Jones Ind. | 16457.66 | 16321.71 | 15698.85 | -0.7% | 12.9% |
| S&P 500 | 1872.34 | 1859.45 | 1782.59 | 1.3 | 19.3 |
| Nasdaq Comp. | 4198.99 | 4308.12 | 4103.88 | 0.5 | 28.5 |
| Wilshire 5000 | 19711.22 | 19637.68 | 18787.83 | 1.5 | 19.1 |
| Gold | 1291.75 | 1326.50 | 1251.00 | 7.5 | -19.2 |
| | | | | Dec 13 | Mar 13 |
| Prime rate | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| Money market rate | 0.41 | 0.41 | 0.41 | 0.43 | 0.50 |
| 3-month T-bill rate | 0.05 | 0.05 | 0.06 | 0.07 | 0.08 |
| 20-yr. T-bond rate | 3.36 | 3.42 | 3.47 | 3.61 | 2.77 |
| Dow Jones Corp. | 2.90 | 2.83 | 2.96 | 3.11 | 2.58 |
| Bond Buyer Muni | 4.73 | 4.81 | 4.91 | 5.13 | 4.15 |

Sources: *Barron's, Wall Street Journal*

## Stock Indices

### April 2009 to March 2014




Past performance does not guarantee future results.

## Thoughts about Retirement Planning

Employee participation in 401(k) plans decreases as the number of investment choices increases. A plan with 11 options had a 70% participation rate, while a plan with 56 options had a 61% participation rate. Studies by behaviorial scientists suggest humans tend not to make decisions when confronted with too many choices (Source: *AAII Journal*, July 2013.)

According to a study by Britain's Institute of Economic Affairs that covered individuals age 50 to 70 years old, retirement adversely affects health. The study found that being retired led to a 39% reduction in the likelihood of describing one's health as "very good" or "excellent," a 41% increase in the probability of suffering from clinical depression, and a 63% increase in the probability of having at least one diagnosed physical condition (Source: Institute of Economic Affairs, May 2013).

Nearly half (49%) of retirees carried debt into retirement, with 55% owing more than $25,000, and 21% owing more than $100,000. This is an improvement over previous years, with 71% carrying debt into retirement in 2007 and 67% in 2009 (Source: *InsuranceNewsNet Magazine*, June 2013). ❍❍❍