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

3RD QUARTER 2015

Your Retirement Planning Questions Answered

Planning for retirement often seems to involve more questions than answers. Below, we answer some of the most common questions so you can make more informed decisions.

How much do I need to save? You probably wish there was a simple answer to this question. Unfortunately, there's not. How much you need to save depends on a lot of factors, including your current age, the age when you plan to retire, your expected lifestyle, how much income you might get from Social Security and pensions, and even how long you expect to live. There are plenty of online calculators that can help, but meeting with a financial advisor can help you draw an even clearer picture.

When should I retire? Many people assume they should retire as soon as they're eligible for Social Security — that's age 62 for most people. But choosing to retire based on that single metric isn't a great idea. For one, given longer life expectancies, a healthy 62-year-old can expect to live for another few decades. You may simply not be ready to give up work that soon. Two, the earlier you retire, the longer your money needs to last. If you haven't saved a lot, you may need to keep working to save more, preserve what you've already set aside, and potentially increase your Social Security benefits.

The fact is, determining when to retire is a very personal decision, based on your health, your spouse's health, your total savings, and more. Meeting with a financial advisor to determine a realistic retirement date based on your financial situation is likely to lead to more success.

Is it realistic to work part-time in retirement? Many people plan to make up a retirement savings shortfall by continuing to work part-time in retirement. There are a lot of advantages to that plan,

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Risk: More Than One-Sided

Risks are inherent in all investments. Even though it is worthwhile to invest so as to minimize risk, the complete elimination of risk is inevitable due to its multi-faceted nature. However, awareness of these risks is a preemptive method to minimize risk.

Risks Inherent to Retirement Investments

1. Longevity Risk – The risk of living longer than expected.
2. Long-Term Care (LTC) Risk – The risk of LTC expenses.
3. Personal and Familial Health Risk – The risk of declining health.
4. Stable Source of Income – The risk of instability of income.
5. Old-Age Dementia – The risk of declining cognitive health.

Risks Inherent to Investments

6. Wrong Time Entry/Exit from the Market – The risk of timing the market.
7. Investment Risk – The risk of negative changes in the economy.
8. Inflation Risk – The risk of inflation outpacing investment growth.
9. Interest Risk – The risk of movement in interest rates.
10. Market Risk – The risk of the inherent movement of the market.
11. Currency Risk – The risk of changing value of foreign currencies.
12. Geopolitical Risk – The risk of changing foreign policies and economies.
13. Emergency Risk – The risk of depletion of assets due to an emergency.

Retirement Planning

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including staying active and engaged and also avoiding depleting your savings. But assuming that you'll be able to work through your 70s may not be a safe bet. First, there's no guarantee you'll be able to get a job in retirement — the economy can be fickle and age discrimination is real, making it harder for some older people to find employment. Plus, there's the health question. Your chances of becoming disabled increase as you age, which could make it impossible to work. Your best bet? Save as much as you can now, and don't count on being able to work in retirement.

How much money can I take from my portfolio every year? For years, the rule of thumb has been that you can withdraw 4% of your portfolio value every year in retirement. That's a ballpark number that should keep you from spending down your principal and exhausting your savings, assuming your retirement lasts 30 years. But what do 4% withdrawals really look like? If you have $500,000 in retirement savings in a diverse portfolio, you'd generate income of about $23,000 per year if you followed the 4% rule. That doesn't exactly promise a life of luxury.

Some people think the 4% rule is out of date. They believe stock and bond returns could be lower in the future than they have been historically, which could make 4% withdrawals too aggressive. These people would advise taking out even less every year, which, of course, means saving even more.

What should I do if I'm in my 50s and worried I don't have enough saved? First, the good news. You'll probably be able to retire. Eventually. But you may have to work longer than you want. And you may have to make some lifestyle adjustments to avoid running out of money. The answer really depends on how much you have today and what you expect your retirement to look like. If you have healthy savings but are still worried about falling short, you may be able to make up the difference by saving more aggressively in the next decade and perhaps cutting spending (getting rid of extras like RVs and fancy vacations, or moving to a smaller, less-expensive home).

If you're really far behind, you have your work cut out for you. But you can improve the situation. First, start saving now, as much as you can. And plan to work for as long as possible, so you can keep saving and get the most out of Social Security (if you don't claim until age 70, your benefits will be permanently higher by 8% for each year you delay past normal retirement age). You'll also want to look for ways to reduce expenses and increase your income. ❍❍❍

Considerations When Relocating

Major life changes often mean changes in your living situation, and retirement is no exception. Whether you are planning on staying in your current home or want to retire to an exotic location, there are some issues you'll need to consider.

If you're thinking about staying put… Like many retirees, you don't plan to relocate in retirement. If you've lived in a home for a while, you probably have a good idea of what it's going to cost to continue to live there, an important part of retirement planning. But there are some challenges that could come. If you raised a family, your home may be bigger than you really need. Maintenance costs and taxes may exceed what you really need to spend. Plus, there's the issue of accessibility. If you hope to stay where you are, you may need to take steps to make sure that's possible, like adding ramps, modifying bathrooms, or widening doorways.

If you're thinking of buying a second home… Dreaming of life in the sun? If this is your plan, make sure your finances can handle it. You'll need to carry the cost of owning and maintaining two properties. Plus, there are travel expenses, which can add up quickly. You'll also need to make sure that you have access to health care, banks, and other essential amenities in your new location.

If you're thinking of moving to another state permanently… Consider taxes and the cost of living before you pack up. Will you have access to good healthcare? Will you be able to build a new social network? Will your religion or political leanings leave you feeling isolated in your new home? Will you be too far away from your family members?

If you're thinking of retiring abroad… A desire to experience new cultures, along with the possibility of a lower cost of living, inspire many to move to exotic retirement locales. If moving abroad is a possibility for you, you'll need to consider some of the same issues as you would if you were moving to another state. But there are additional issues. Taxes on U.S. citizens abroad can be a stumbling block. Make sure you understand the potential challenges of life in a foreign country as well. For example, some places have restrictions on whether foreigners can own property. Health care may not be up to the standard you're used to. Plus, Medicare won't cover care abroad. You'll also need to be prepared for other lifestyle differences. ❍❍❍

How Much Do You Really Need to Retire?

There are a lot of reasons people don't save for retirement or don't save enough. They feel they don't make enough, they have more immediate financial needs, or they're not sure how to get started. One other reason? People aren't sure how much they need to save, which can make it hard to get started. After all, if you don't have a clear destination in mind and a plan for reaching that destination, getting started is hard. In fact, only 44% of people have even attempted to calculate how much they might need to save for retirement, according to the 2014 Retirement Confidence Survey.

Unfortunately, there's no magic retirement number that applies to every single person. We're all different, and we all have different retirement needs. There are a variety of ways to estimate how much you might need to enjoy a secure retirement. We'll review a few of them below.

The Goal: $1 Million

When it comes to retirement savings goals, people often fixate on one number: $1 million. Why? It's a nice round figure and it seems like a lot of money. After all, who wouldn't want to be a millionaire?

One million dollars isn't a bad place to start as far as retirement saving goals go. But the problem is that it isn't calibrated to your particular needs. A $1 million portfolio translates into an income of about $40,000 a year over a 30-year retirement. That, combined with income from Social Security, could mean a comfortable or strained retirement budget, depending on your lifestyle. If your expenses are modest and you live in a relatively inexpensive area, that $1 million portfolio could be more than adequate (some people may even be happy living on less). But if you live in a big city, are still paying your mortgage, or want to travel a lot, you may not have enough. To really plan for retirement, you need a more specific number.

The Goal: Replace 70% to 80% of Your Preretirement Income

Retirement planning experts often talk about income replacement rates. In simple terms, this is the percentage of your preretirement income you would need to replace to maintain roughly the same standard of living you had before retirement. The rule of thumb is that most people will need between 70% and 80% of their preretirement income. This estimate is based on the idea that your expenses will shrink once you stop working — you'll spend less on transportation and eliminate 401(k) contributions, for example — so you'll need less money day-to-day.

That sounds reasonable on the surface, but many retirees find that their expenses don't actually decrease when they retire. In fact, they may even grow. Freed from the 9-to-5 grind but still feeling energetic and healthy, many people use the early years of retirement to indulge in all the fun activities they put off while working and raising a family. These people may need to plan on replacing 100% or more of their pre-retirement income. One other thing to keep in mind: Lower-income people tend to need a replacement rate that's closer to 100%, since they usually have fewer areas where they can cut spending.

The Goal: Save 10% to 15% of Your Current Income

Often, you'll see recommendations to save somewhere between 10% and 15% of your income for retirement. That's not a random number. Researchers from Boston College's Center for Retirement Research found that saving 10% of income starting at age 25 meant that a person could retire at age 65 with a 70% replacement rate. Start saving later, and you'll need to save more — wait until age 45, and you'll need to set aside more than a quarter of your income. That's just not realistic for most people. If you're young and not sure about what your retirement lifestyle will really look like, give yourself a solid foundation by setting a saving target in the 10% to 15% range. That will position you for success decades down the road.

The Goal: Your Personal Retirement Number

Rules of thumb are just that — rules of thumb. You'll see a lot of them out there. But the important thing is to use those numbers as a guide to develop your own personal retirement number, which should consider how you want to live, where you want to travel, your health, how much you want to leave to your kids and/or charity, and more. Along with details about your current savings, you can reach a target retirement number that is achievable *and* will allow you to live the lifestyle you want. ❍❍❍

Staggered Retirements

Often, spouses don't retire at the same time. Frequently, one spouse may retire first due to health problems or a layoff, not necessarily because the spouse chooses to retire early. No matter what the reason, keep these points in mind if you are in that situation:

✔ **Try to minimize withdrawals from retirement accounts.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working. It's a good opportunity to test your retirement budget and reduce expenses.

✔ **Utilize all available benefits from the working spouse's employer.** One of the most significant retirement expenses, especially if you don't qualify for Medicare, is health insurance. So, before one spouse retires, find out if that spouse is eligible for health insurance through the working spouse's employer.

✔ **Delay Social Security benefits.** Especially if you are retiring before full retirement age, it typically makes financial sense to delay Social Security benefits. For a significant number of married couples, the man is older, has higher earnings, and will not live as long as the woman. Because a surviving spouse can elect to receive 100% of the deceased spouse's benefit, it typically makes sense for the man to wait until age 70 to claim Social Security benefits, to provide his wife with the highest possible benefit after his death. On the other hand, there is usually no reason for the woman to wait beyond ages 62 to 66 to start Social Security benefits.

✔ **Consider all defined-benefit plan payment options.** If you are lucky enough to be covered by a traditional pension plan at work, make sure to consider all the payment options carefully before selecting one. Typically, you will have numerous options, but your choice will be irrevocable. ❍❍❍

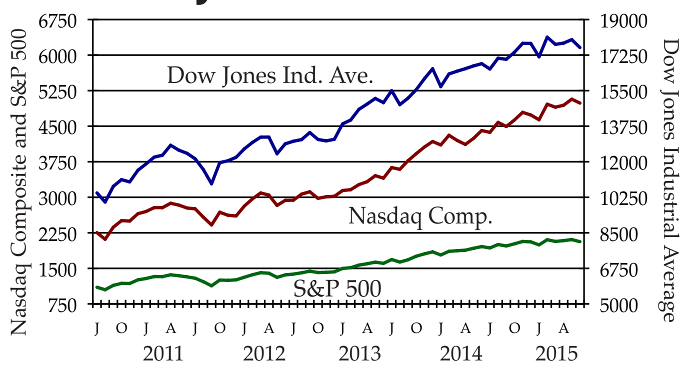
Market Data

	Month End			% Change	
	Jun 15	May 15	Apr 15	YTD	12 Mon.
Dow Jones Ind.	17619.51	18010.68	17840.52	-1.1%	4.7%
S&P 500	2063.11	2107.39	2085.51	0.2	5.2
Nasdaq Comp.	4986.87	5070.03	4941.42	5.3	13.1
Wilshire 5000	21630.90	22043.01	21785.87	1.0	5.2
Gold	1171.00	1191.40	1180.25	-2.4	-11.0
				Dec 14	Jun 14
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.34	0.36	0.36	0.43	0.43
3-month T-bill rate	0.02	0.02	0.02	0.04	0.03
20-yr. T-bond rate	2.81	2.75	2.30	2.47	3.17
Dow Jones Corp.	3.25	2.98	2.71	3.08	2.71
Bond Buyer Muni	4.47	4.41	4.28	4.31	4.53

Sources: *Barron's, Wall Street Journal*

Stock Indices

July 2010 to June 2015



Past performance does not guarantee future results.

Thoughts about Retirement Planning

The median accumulated individual retirement account balance as of 2011 was $34,000 (Source: General Accountability Office, September 16, 2014).

In a recent survey asking how they would like to spend retirement, 48% of respondents said traveling, 23% said pursuing hobbies, 16% said spending time with family, and 13% said volunteering or working (Source: *Money*, November 2014).

An average replacement rate of 73% of annual income is needed in retirement. That figure ranges from 80% for low-income households to 67% for high-income households. The middle-class replacement rate of 71% assumes that there is a 41% contribution from Social Security (Source: The Federal Reserve's National Retirement Risk Index, 2014).

It is estimated that workers who start saving in their mid-30s and plan to work until age 70 should save 6% of their income. That would increase to 24% of income if the worker stops working at age 62. A 45-year-old worker would need to save 10% to retire at age 70 and 44% to retire at age 62 (Source: The Center for Retirement Research, 2014). ❍❍❍