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401(k) UPDATE

4TH QUARTER 2018

Squeezed by Competing Needs

At a time when baby boomer couples should be saving for their own retirements, many feel squeezed by competing financial needs. Having started families later than past generations, their children may just now be entering college or still living at home. At the same time, aging parents may need financial assistance. It is a dilemma that is likely to become more common.

Caring for Parents

As life expectancies continue to rise, it becomes increasingly likely that you may need to help an aging parent. Some financial precautions you should consider now include:

✔ Investigate long-term-care insurance for your parents. If they can't afford the insurance, you may want to purchase it for them.

✔ Have your parents prepare a listing of their assets, liabilities, and income sources, including the location of important documents. This can save time if you need to take over their finances.

✔ Make sure your parents have legal documents in place so someone can take over their financial affairs if they become incapacitated. They may also want to delegate healthcare decisions.

✔ Understand the tax laws if you provide financial support to your parents. You may be able to claim them as dependents if you provide more than half of their support. Additionally, you may be able to deduct medical expenses paid on their behalf.

✔ Find out if your employer offers a flexible spending account for elder care. This may allow you to set aside pretax dollars to pay elder-care expenses for a dependent parent.

Assisting Your Children

For many families, college costs are significant. While you may want to pay all college expenses for

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Where Will You Go?

Many people dream of moving after retirement — to a warmer climate, another country, the sea, a city where they can enjoy their hobbies. But most retirees don't move. If moving after retirement seems so appealing, why do so many retirees stay put?

✔ They know the area and the people. They know where stores, restaurants, and theaters are and probably have a circle of friends to share these activities with.

✔ Relatives usually live close by. Living close to family helps maintain strong family relationships, a key factor in retiree happiness. Relatives can also look after them as they age.

✔ It's less stressful to stay in their current homes. All of the inconveniences of moving, including finding a new house, figuring out where to shop and eat, and making new friends can be overwhelming for older individuals.

✔ The cost of living may not be much lower. Individuals often think about moving to lower their cost of living, but the difference in expenses may not offset the inconveniences involved with moving.
❍❍❍

Squeezed

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your children, it may not be feasible with competing needs to save for retirement and/or assist parents. Some strategies to consider include:

✔ Shift some of the burden to your children, requiring them to work part-time during college or take out student loans.

✔ Understand the financial aid system, investigating all financial aid sources. Search for scholarships that are not based on need. Apply to several different colleges, looking for the best financial aid package. Negotiate with your child's preferred college to see if you can increase that financial aid package.

✔ Look for ways to reduce the costs of college. Your child can start at a community college, which is often cheaper than a four-year university, especially if the child commutes from home. Also consider a public university in your state, which will generally be more affordable than a private university.

Once your child graduates from college, don't assume your financial responsibilities are over. Adult children may return home for a variety of reasons — they can't find a well-paying job, they have too much debt to live alone, or they divorce and need financial support. If your child returns home, realize there are increased costs — additional food, phone bills, utilities, etc. Consider charging rent and imposing a deadline on how long he/she can stay.

Don't Forget Yourself

When faced with the competing needs of children and aging parents, it's easy to neglect your own need to save for retirement. But don't feel guilty about your retirement needs. One of the best gifts you can give your children is the knowledge that you will be financially independent during retirement. Consider the following:

✔ Calculate how much you need for retirement and how much to save on an annual basis to reach that goal. Don't give up if that amount is beyond what you are able to save now. Start out saving what you can, resolving to significantly increase your savings once your parents' or children's needs have passed. Also consider changing your retirement plans, perhaps delaying your retirement or reducing your financial needs.

✔ Take advantage of all retirement plans. Enroll in your company's 401(k), 403(b), or other defined-contribution plan as soon as you're eligible. Also consider investing in individual retirement accounts. All provide tax-advantaged ways to save for retirement.

✔ Reconsider your views about retirement. Instead of a time of total leisure, consider working at a less-stressful job, starting your own business, or turning hobbies into paying jobs. ❍❍❍

Don't Forget about Digital Assets in Your Estate Plan

When preparing an estate plan, people often forget about their digital assets. But with so many managing their lives online, digital assets are an integral part of your estate plan. There is a myriad of digital assets to think about as part of your plan, including:

✔ Computers, external hard drives, smart phones, cameras, flash drives, and other electronic devices.

✔ Online accounts such as bank accounts, investment accounts, utilities, mileage and reward accounts, and social media accounts.

✔ Any important documents you have stored in electronic files, such as tax returns, insurance documents, wills, and trusts.

The first step is to conduct a thorough inventory of all your digital assets. Make a list that includes the type of asset, the location of each, website addresses where applicable, usernames, and passwords. You should provide the written list to the person you are entrusting to take care of these assets or keep a copy with your will that clearly identifies the person in charge of managing them.

Other things to consider for storage of digital assets is an online vault and password manager. The online vault allows you to store all of your important documents in one secure online account. The password manager stores all of your usernames and passwords for all of your online accounts. The person responsible for your digital assets only needs access to one password that will give him/her the information for all of your other accounts.

In your estate plan, you will want to provide clear instructions as to who is responsible for your digital assets and how you want them handled. You will want to select someone you trust, because you may have private details you want kept private. Make sure you indicate if you want accounts closed, documents deleted, and any accounts or documents needing to go to a certain person, especially if there is any associated monetary value. ❍❍❍

Investing Before and During Retirement

There are two phases in the life cycle of a retirement portfolio: the time when you're contributing to it and the time when you're using it to cover your living expenses. During each phase, the basic challenge is deciding how to invest your nest egg, and there are three common approaches for that:

Going with your comfort level. Most people have some idea as to what investments appeal to them, either because of the rate of return they associate with them or how much safety they seem to offer. Some people would never put their money anywhere but in an insured savings account, CD, or U.S. Treasury security. Others feel there's no better place than the stock market, commodities, real estate, or tax-free municipal bonds. Whichever it is, people tend to pile their retirement funds in one place — which can cause problems if there is a significant decrease in that investment.

Using a one-size-fits-all formula. There are at least several of these formulas floating around. On the theory that the closer you get to retiring the more conservative you should become, one says you should subtract your age from 100, treat the result as a percentage, and put that portion of your portfolio in stocks and the rest in bonds. Another follows the same method, but suggests you subtract your age from 120. The appeal of this approach is that it's simple and unambiguous. The downside is the results don't take into account the details of your circumstances (your income, savings, how much your future lifestyle will cost), the state of the economy and inflation, or the cyclical nature of market returns.

Using a financial plan. A plan includes all details the other two methods leave out. It's by far your best bet for achieving your retirement goals since it takes your circumstances and the state of the economy into account. The plan should be split into before-retirement and during-retirement strategies.

Before You Retire

The key factor is to determine what rate of growth you need to achieve in your portfolio to retire with a nest egg capable of supporting you for the rest of your life once you no longer earn a paycheck. It's a balancing act between how much you can afford to put aside every year, how much growth will maximize your nest egg, and how much risk you feel comfortable taking.

By analyzing these factors, a good financial plan produces a recommended asset allocation strategy that specifies how much of your portfolio should be invested in stocks, bonds, cash, commodities, and real estate. The mix of your investments aims at a target rate of return and risk level that both meets your goals and makes you comfortable with the year-to-year results.

In general, the younger you are the more risk you can afford to take, since you will have many market and economic cycles to smooth out your returns. It's not unheard of for someone in his/her 30s or 40s to invest up to 70% or 80% of his/her assets in stocks. Conversely, younger people who are risk-averse may be able to take less risk and put more of their assets in CDs and bonds, as long as they have more modest retirement goals.

It's generally true that the closer you are to retiring, the more conservative your portfolio should be. But this doesn't suggest the precise proportions to place into each asset class, nor does it take into account the opportunities or challenges current market conditions present. Those answers will come only when you get into the details of your current situation and future goals.

After You Retire

Before you retire, your asset allocation strategy is driven largely by the goal of creating the largest possible retirement portfolio within the limits of your tolerance for risk. After you retire, the goal shifts to keeping your retirement portfolio large enough to continue generating the supplemental income you'll need for the rest of your life.

While this shift means your strategy aims for less growth and risk than in the accumulation stage, it's usually a mistake to revert to the most conservative strategy possible. That's because your portfolio gets eroded over time by:

Inflation, which means the real value of your portfolio (as well as the buying power of the income it generates) gets smaller every year.

Taxes on income, withdrawals from traditional IRAs, and capital gains in taxable accounts.

Withdrawals that you make to support your lifestyle.

Because of this constant shrinkage, some portion of your portfolio needs to be invested in stocks, which is a riskier asset class but the one that typically stays ahead of inflation, taxes, and reasonable withdrawals rates.

Why Should You Consider Bonds?

Why should you consider bonds for your investment portfolio? The primary reasons include:

✔ **Bonds add diversification to your portfolio.** One strategy to help counter the effects of stock market volatility is to add investments to your portfolio that aren't highly correlated with the stock market. Historically, stocks have a low positive correlation with corporate and government bonds.

✔ **Bonds offer fixed, periodic interest payments and the return of your principal at maturity.** Thus, even in the event of a significant market decline, you receive some return in the form of interest payments, and you'll receive your principal at maturity.

✔ **Bonds are often better suited to short- and medium-term financial goals.** If you need your money in a few years, you may not want to keep those funds in stocks, since a major stock market decline could occur when you need your money.

Most investors will hold stocks, bonds, and cash in their investment portfolios. How much you should allocate to the bond portion will depend on your circumstances, but over time that percentage is likely to change. For instance, young investors are likely to be more concerned with growth, so bonds may only make up a small percentage of their portfolio.

On the other hand, those who are retired or close to retirement are likely to own a higher percentage of bonds, as safety of principal and a steady income stream become more important. In general, the percentage of bonds you own should increase as you become more averse to putting your capital at risk. ❍❍❍

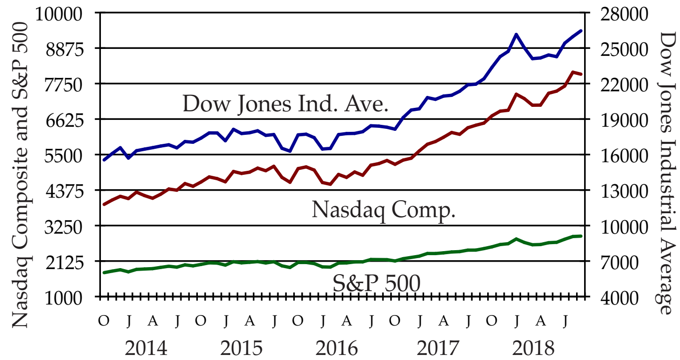
Market Data

	Month End			% Change	
	Sep 18	Aug 18	Jul 18	YTD	12-Mon.
Dow Jones Ind.	26458.31	25964.82	25415.19	7.0%	18.1%
S&P 500	2913.98	2901.52	2816.29	9.0	15.7
Nasdaq Comp.	8046.35	8109.54	7671.79	16.6	23.9
Wilshire 5000	30189.60	30184.10	29230.11	9.1	15.5
Gold	1187.25	1202.45	1220.95	-8.4	-7.5
				Dec 17	Sep 17
Prime rate	5.25	5.00	5.00	4.50	4.25
Money market rate	0.47	0.45	0.49	0.33	0.27
3-month T-bill rate	2.18	2.08	2.00	1.45	1.05
20-yr. T-bond rate	3.13	2.91	2.92	2.66	2.57
Dow Jones Corp.	4.14	3.84	3.93	3.13	2.97
Bond Buyer Muni	4.14	4.02	4.01	3.88	4.04

Sources: *Barron's, Wall Street Journal*

Stock Indices

October 2013 to September 2018



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Approximately 47% of men who are retirement age or older will need long-term care in the future, compared to 58% of women (Source: U.S. Department of Health and Human Services, 2018).

In 1960, 10% of the U.S. population was over age 65. By 2040, 20% of the population will be over age 65 (Source: *Time*, 2018).

In 2017, the average annual cost of a nursing home was $82,000 (Source: Kaiser Family Foundation, 2018).

Approximately 40 million individuals are caring for older relatives. The typical family caregiver is a 49-year-old female (Source: *Journal of Financial Planning*, January 2018).

The average life expectancy in 1930 when Social Security was designed was 58 years for men and 62 years for women. Today, a man turning 65 can expect to live to 84.3 years on average, while a woman can expect to live to 86.6 years (Source: Social Security Administration, 2017).

About 59% of the Social Security benefits of a 66-year-old couple retiring in 2016 will be required to cover retirement healthcare costs (Source: Wealthmanagement.com, November 2017). ❍❍❍