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401(k) UPDATE

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How Do You Know If You're Saving Enough?

Most people think when they start earning more money, they'll then start saving more money. But what often happens is the more you make, the more you spend. If you want financial independence, you have to establish a savings routine. The more money you make, the more your savings rate needs to increase.

While it may seem like a daunting task, it can be accomplished. The only way to reach financial independence is if you save and live within your means. Your savings should include retirement account contributions, matching funds from your company if available, cash savings, and any other investments.

Savings at Every Age

Your 20s: You are just starting out and, hopefully, you've found a good job that pays a reasonable salary. This is the beginning of the accumulation stage, so you need to start by paying off debt if you have student loans and work to save at least 10%–25% of your income.

If your employer offers a 401(k) plan, start investing right away. Try to contribute as much as possible or at least contribute as much as your employer will match.

Your 30s: Hopefully, you have now found out what you want to do for a living and have had a jump in income. You are still in the accumulation stage, so you should be increasing contributions to your retirement accounts and trying to contribute the maximum per year.

By the end of your 30s, you'll want at least twice your annual salary saved. A simple example: If you're making $50,000 annually, you'll want to have $100,000 accumulated in savings by age 39. But remember this includes retirement accounts.

Your 40s: This is the decade of major responsibilities, as you proba-

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Make Saving Part of Your Budget

If you want to make headway with your savings, you need to do a number on your budget. Many financial experts agree that the 50/20/30 rule of budgeting is what you need to focus on, dividing your take-home pay into three categories:

- ✔ **Necessities** — 50% of your budget should go toward the things that you need to live day-to-day, such as housing, food, utilities, transportation, etc.
- ✔ **Savings** — 20% of your budget should go toward contributions to your 401(k) plan or IRA, cash savings, and to pay down debt.
- ✔ **Lifestyle** — 30% of your budget should go to things you like to do, such as dining out, going to the movies, hobbies, as well as short-term savings for things like vacations.

As with most things, it all comes down to priorities. You need to look at where you are spending your money to make conscious decisions about what is a necessity versus a lifestyle choice. Please call if you'd like to discuss this topic in more detail. ❍❍❍

How Do You Know?

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bly have dependents. Your income has most likely increased as you climbed the ladder at your job or moved to a new one. And even with the increase in expenses, you'll need to also be increasing your savings rate.

By the end of your 40s, you should have saved four times your salary. You will want to now be maxing out your contributions to retirement accounts, as well as monitoring your investments for performance.

Your 50s: You are now at your peak earning years and your saving rate should be at its highest. Your expenses are still pretty high; but by the end of this decade, you will most likely be an empty nester, and your expenses should decrease.

By the time you reach 59, you'll want to have saved seven times your income. Monitor your investments so you can make adjustments to increase your returns.

Your 60s: You're getting close to or have retired. Your mortgage may be paid off and expenses have decreased. Your saving should be at its peak, which is 10 times your income prior to retiring. You can now start to relax as you will receive distributions from your retirement accounts as well as Social Security. You'll need to make sure that you are informed about distribution requirements of your retirement accounts.

Your 70s and beyond: Now all of your expenses are being covered by your retirement account distributions and Social Security. Hopefully, you have saved well and are reaping the benefits of all those years of saving.

Watch for These Warning Signs

As you go through the journey to retirement, you may not be able to accumulate the level of savings you need, but you should have acquired a good amount of savings for a comfortable retirement.

Take stock of how much you are saving every year and look for warning signs that you are not saving enough.

If you experience any of the following, you need to take a hard look at your financial situation to get on track:

✔ You have no idea how much money you're spending every month, which means you are most likely overspending.

✔ You don't have savings goals or a savings plan. If you don't have goals and a plan to achieve them, you will have a hard time saving for important milestones.

✔ You're living paycheck to paycheck. It's time to take a serious look at your finances to see what can be reduced or eliminated.

✔ You're putting off saving for retirement. It will get here quicker than you think, and this is the one thing you really need to start saving for as early as possible.

✔ You can't pay your credit card balance in full, which means you probably have significant debt.

✔ You don't have an emergency fund. You know the unexpected will happen, and you need to be prepared. ❍❍❍

Watching Your Stocks

No matter how often you prefer to monitor your stocks' performance, there are certain items you should consider. Here are five things to review:

✔ **Earnings —** Pay attention to each company's quarterly and annual earnings statements, which include comparisons with the recent past and often reviews of what management expects for the next quarter and year. Review that stock's earnings trend and how the company performs compared to analysts' estimates.

✔ **Price and dividends —** Study a stock's price compared to its 52-week highs and lows. Examine its trailing total returns year to date and over the last one-, three-, five-, and 10-year periods. Look for changes in the absolute dollar amount of dividends and the current yield.

✔ **P/E and PEG ratios —** Price/earnings (P/E) and price/earnings to growth (PEG) ratios are often better indicators than the stock price as to how relatively expensive or cheap a stock is. The P/E ratio is useful for comparing the stock to other stocks and the market in general, while the PEG ratio is a strong indicator of whether the stock is overpriced or underpriced compared to its projected earnings growth rate over the next five years.

✔ **Insider transactions and stock buybacks —** A company buying back its own stock or whose senior executives and directors are accumulating more shares is a bullish sign. On the other hand, when insiders are selling off major holdings of their own stock, it's quite often an indication that the stock price has peaked.

✔ **Sudden and large price changes on high volume —** When a stock makes a sudden, high-volume move — particularly when it opens much higher or lower than the previous day's high or low — it can be the start of a new, long-term trend. ❍❍❍

Advice on Saving for Children

Your child has finally finished college and started his/her first full-time job. What is the most important financial advice you can give?

Participate in your 401(k) plan as soon as you are eligible. The quality of your child's retirement will largely be determined by the amount of money he/she saves, and a 401(k) plan is a great place for him/her to start. Before marriage, a new home, or other obligations consume his/her entire paycheck, get him/her into the habit of saving. Because the contributions are deducted before he/she even sees his/her paycheck, it's a great way to get him/her into the habit of saving on a regular basis.

Having trouble convincing him/her this is a good strategy? Perhaps some numbers will make the point. Assume your child starts contributing to his/her 401(k) plan at age 25, contributing $6,000 per year (substantially below the maximum contribution in 2018 of $18,500), with matching employer contributions of $3,000. If he/she earns 8% annually, he/she could have a balance of $2,331,509 at age 65, before the payment of any taxes. What if he/she waits until age 35 to start contributing? At age 65, the balance could be $1,019,549, still a substantial amount, but $1,311,960 lower than if he/she started at age 25. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment vehicle.)*

What if your child still isn't convinced? Consider reimbursing him/her, as part of your annual gift-tax exclusion, for any 401(k) contributions. You can reimburse the entire amount or offer to make a partial reimbursement.

Don't let your child procrastinate because there are too many decisions to be made. Just encourage him/her to start contributing, reassuring him/her that none of the decisions is permanent. He/she can review contribution levels, investment choices, beneficiary designations, and other matters at a later date.

If your child has the option to contribute to a regular 401(k) plan or Roth 401(k) plan, suggest contributing to the Roth 401(k). Employer-matching contributions will still be made to a regular 401(k) plan, but your child's contributions can go to the Roth 401(k). Your child won't get a current tax break for contributions made, but he/she will owe no taxes on the contributions or any earnings when withdrawals are made. This can make a huge difference in the amount of money available for retirement.

What if your child doesn't have a 401(k) plan at work? Encourage him/her to contribute to an individual retirement account (IRA). Although in 2018 contributions are limited to $5,500 compared to $18,500 for 401(k) plans, IRAs are still a good way to save for retirement. Again, suggest a Roth IRA rather than a traditional deductible IRA, so that qualified withdrawals can be taken with no tax consequences. ❍❍❍

Set Your Own Debt Limits

Credit can be a valuable tool that allows you to purchase major items and pay for them over time. But the ready availability of credit also makes it easy to incur more debt than you can comfortably repay. Rather than allowing lenders to set credit limits for you, evaluate your financial situation and determine your own limits.

To find out where you stand with consumer debt, which includes all debt except your mortgage, make a list of your debts and monthly payments. Then calculate your debt-to-income ratio by dividing your monthly debt payments by your monthly net income. The general guideline is that your debt-to-income ratio should not exceed 10% to 15% of your net income, with 20% usually considered the absolute maximum. However, you should consider your own circumstances and decide how much debt you are comfortable with.

Before purchasing something on credit, evaluate whether it makes sense to do so. Some questions to ask yourself include: Should I wait and save the money so I can pay cash? Will the cost of the item increase or decrease in the future? Is it really worth paying interest on the item so I can use it now? Will I still be within my designated debt limits if I add this new debt payment? Will the item still have value after I finish paying for it?

Setting your own debt limit and carefully evaluating whether you should purchase an item on credit should help you keep your debt under control. ❍❍❍

Consider a Bond Tent

The good news is you finally saved enough to retire and now have a large portfolio. The bad news? If the market takes a serious downturn, the impact on your portfolio could be a disaster.

History has shown that the sequence of returns generated by a portfolio from one year to the next can hugely affect the total return generated over time. While long-term average returns determine how much money you make, the timing of those returns is equally important. For example, if you retire during the bottom of a bear market, you will see your holdings rise as the market recovers, but you will also see the overall portfolio growth reduced because of the amount of money withdrawn in early retirement.

An important strategy to consider is building a bond tent before you retire. This strategy increases the allocation of bonds during the 10 years or so prior to retirement, and then the bonds are sold from this portion of your portfolio during the first 10 to 15 years of retirement, providing you with an income stream.

The reason this strategy is called a bond tent is that if you looked at it on a line graph, the bonds in the portfolio steadily rise until they reach a peak at retirement and then fall as the bonds are sold, which makes a tent shape. The strategy works by reallocating a traditional 60/40 mix of stocks and bonds to an allocation of 50% or 60% in bonds by the time you retire.

The bond holdings are then sold during the first half of retirement until the original mix is once again reached. This provides portfolio protection against major losses due to market downturns in the first half of retirement. The portion of your portfolio that is still in stocks will continue on the path for long-term growth to fund your later years of retirement as well as provide protection against inflation. ❍❍❍

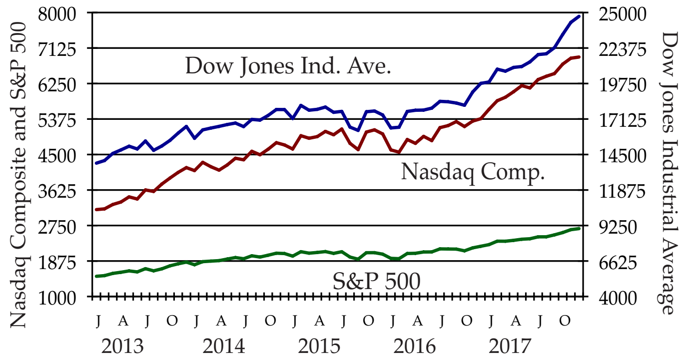
Market Data

	Month End			% Change	
	Dec 17	Nov 17	Oct 17	YTD	12-Mon.
Dow Jones Ind.	24719.22	24272.35	23377.24	25.1%	13.4%
S&P 500	2673.61	2647.58	2575.26	19.4	9.5
Nasdaq Comp.	6903.39	6873.97	6727.67	28.2	7.5
Wilshire 5000	27673.19	27433.82	26687.97	18.9	10.3
Gold	1296.50	1280.20	1270.15	11.9	9.1
				Dec 16	Dec 15
Prime rate	4.50	4.25	4.25	3.75	3.50
Money market rate	0.33	0.33	0.32	0.29	0.27
3-month T-bill rate	1.45	1.29	1.02	0.56	0.26
20-yr. T-bond rate	2.66	2.62	2.61	2.86	2.60
Dow Jones Corp.	3.13	3.11	3.08	3.17	3.43
Bond Buyer Muni	3.88	3.96	4.03	4.26	4.22

Sources: *Barron's, Wall Street Journal*

Stock Indices

January 2013 to December 2017



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Approximately 70% of individuals age 65 and older will need long-term care at some point. Approximately 65% of those with long-term-care needs rely exclusively on family and friends for assistance (Source: U.S. Administration on Aging, 2017).

In 2016, the median annual cost of a private nursing home room in the United States was $92,378, while a semiprivate nursing home room was $82,125 (Source: Genworth, 2017).

Approximately 66% of caregivers are female. The average female caregiver will lose $324,044 in wages, pension, and Social Security benefits (Source: *Journal of Financial Planning*, April 2017).

Just 25% of millennial adults (those born from 1981 to 1990) participate in defined-contribution plans, compared to 43% of baby boomers.

One factor that boosts participation across age groups is the employer match. When employers match workers' retirement savings contributions, 81% of millennials and 80% of baby boomers with access to a defined-contribution plan participate. When a match is not offered, just 56% of eligible millennials participate versus 74% of baby boomers (Source: The Pew Charitable Trusts, February 2017). ❍❍❍