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401(k) UPDATE

SPRING 2020

Reviewing Your Portfolio's Performance

At least annually, you should review your portfolio's performance, comparing it to relevant benchmarks and determining whether you are making progress toward accomplishing your financial goals. Consider these steps in the process:

1. Measure the performance of each investment in your portfolio. Many investments and investment managers will provide you with periodic performance information. When reviewing this information, keep in mind the following points:

✔ Often, an investment's return is reported on a time-weighted basis, which does not consider when you invested.

✔ Information that reports your portfolio's return is generally expressed on a dollar-weighted basis, which measures the investment return based on when cash inflows and outflows occurred. While this is a more relevant measure when evaluating your portfolio, time-weighted returns can make it easier to compare the returns of different investments.

✔ Investments often report cumulative annualized returns over a period of time, representing the average annual performance over that time. Since returns can fluctuate significantly on a year-to-year basis, this annualized return can help you evaluate the long-term performance of an investment.

If you invest in individual stocks and bonds, you may need to calculate those returns yourself. Conceptually, your total return on an investment equals the change in market value plus any dividends, interest, or capital gains, divided by the beginning market value. Total return can be difficult to calculate, especially if you make additional investments or withdrawals during the year. You may need the help of a computer program to calculate

Continued on page 2

Quick Math

Don't have a calculator handy, but need a quick answer to a financial question? Here are three shortcuts:

How long will it take to double your money? Divide 72 by your annual investment return. If you are earning 8% annually on your investments, it takes nine years for your investments to double in value.

How much does it cost to purchase an item before taxes? Multiply the cost by 1.8 if you are in the 37% marginal tax bracket, 1.7 in the 35% or 32% tax brackets, 1.5 in the 24% tax bracket, 1.4 in the 22% tax bracket, and 1.2 in the 12% or 10% tax brackets. These numbers also factor in Social Security and Medicare taxes, but not state income taxes. So, if you are in the 28% marginal tax bracket and want to spend $10,000 on a vacation, it will cost $16,000 before taxes.

How much will your retirement savings grow in 30 years? Assuming an 8% investment rate of return, add a zero to the amount. Thus, if you have $100,000 today, it could grow to $1,000,000 in 30 years. This is a handy way to look at whether it's worth spending money on something. ❍❍❍

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Portfolio's Performance

Continued from page 1

your total return precisely.

2. Find an appropriate benchmark to compare to each component of your portfolio. A wide variety of market indexes now exist, covering different segments of the market. Find ones that track investments similar to each component of your portfolio. Making comparisons to a benchmark should help you identify portions of your portfolio that may need to be changed or that you should start monitoring more closely.

3. Calculate your overall rate of return, comparing it to your estimated return. When designing your investment program, you probably assumed a certain rate of return, which determined how much you need to invest to reach your financial goals. Calculating your actual return will determine if you are on track. If your actual return is below the return you estimated, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future. Performing this analysis annually should allow you to make these changes gradually.

4. Review your overall investment allocation to determine if changes should be made. This annual review is a good time to compare your actual allocation to your desired allocation. You may find you need to make changes for a variety of reasons. If certain portions of your portfolio have performed well, you may find they make up a larger percentage of your portfolio than originally planned. You may also find you need to sell certain investments that are not performing well. You may need to refine your asset allocation percentages, since your strategy will change over time. ❍❍❍

Tax-Deferred Compounding

When considering your retirement, it's good to remember there are two keys to creating more wealth from the same starting point and the same amount of resources. One, compounding, is a gift of the laws of mathematics. The other is a gift from the government: tax-deferred compounding.

You compound your investment returns when you reinvest them instead of spending them. If you earn 5% a year on $10,000, that's $500. Over 10 years, you've made $5,000. If you spend it all, you will be no better positioned for retirement. Your account balance would still be the same.

But reinvesting those earnings makes a big difference. Let's say that in the example above, you're generating income in a taxable account and your tax rate is 24%. This means that out of your earnings of $500 a year, you net $380 after taxes, and let's say you reinvest it all. After 10 years, your account value will have grown to nearly $14,520, which is a total return of 45.2%.

Tax deferral makes this even better. Individual retirement accounts and 401(k) plans were designed to encourage Americans to save their own money for retirement. The incentives were two-fold. The first was granting people an income tax deduction for their contributions. But the second was the most powerful by putting off taxes on investment earnings and capital gains until the money is withdrawn.

Returning to our example, let's say your money is in a tax-deferred retirement account, like a 401(k) or an IRA, still earning 5% a year. The tax-deferral feature of these accounts means you can reinvest the entire $500 your portfolio earns every year. Now, after 10 years, your account is worth $16,470, 13% more than the $14,520 that built up in the taxable account at the same pre-tax rate of return. The difference can be even more dramatic when you're making monthly contributions and achieving higher rates of return in your account.

Here are some ways to get the maximum benefit out of tax-deferred accounts:

✔ **Start early.** Even small amounts contributed regularly can grow to substantial amounts when you start at an early age. If you're 25 and you contribute just $25 a month to an IRA or 401(k) that earns an average of 8% a year, by the time you're 65, your balance could equal more than $351,000. That's over $55,000 more than you'd build up if you contribute $500 a month — 20 times as much — but waited to start until you were 45.

✔ **Put away as much as you can.** Maximum contributions to IRAs are $6,000 if you're under 50 years of age, and $7,000 if you're 50 or older. For 401(k) plans, the maximum is $19,500 in 2020 and you can add another $6,500 if you're 50 or older (if permitted by your plan). Since tax-deferral provides the bulk of the benefits of retirement accounts, it's smart to push toward the maximums.

✔ **Maximize any employer matching contributions.** Not all 401(k) plans feature a matching employer contribution, but if yours does, do everything you can to qualify for the maximum match. It's like free money. ❍❍❍

Estate Planning and Retirement Accounts

Retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), are many people's most significant assets. While you may think you'll need every bit of money in those accounts for 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 most 401(k) plans and IRAs have similar distribution periods for beneficiaries, there is not as much need to roll 401(k) plan assets over to an IRA. However, with IRAs, you will often have many more investment options for your plan assets. You may also want to roll the plan assets over to a Roth IRA, but will first need to roll over to a traditional IRA.

✔**Understand the new distribution periods when naming beneficiaries.** In the past, beneficiaries could take distributions from an inherited IRA over their lifetimes. However, the SECURE Act, which is effective starting on January 1, 2020, drastically changed those rules. Now, for individuals dying after December 31, 2019, designated beneficiaries (humans with a life expectancy) must withdraw all funds within 10 years. However, eligible designated beneficiaries can still withdraw funds from inherited IRAs over their life expectancy:

1. Surviving spouses
2. Minor children
3. Disabled or chronically ill individuals
4. Individuals who are not more than 10 years younger than the deceased IRA owner

Once a minor child reaches the age of majority, the remainder of the distributions must be completed within 10 years after that date. Withdrawals do not have to be taken out in equal installments over the 10-year period. The only requirement is that the entire balance must be withdrawn at the end of the 10-year period. This provision is expected to significantly increase tax revenue from inherited IRA distributions. It may be a particular problem for children who inherit parents' IRAs and are in their peak earning years. Some strategies to consider include:

1. Name younger or more lightly taxed beneficiaries for IRAs.
2. Name more beneficiaries so each receives less taxable income.
3. Gift IRAs to charities.
4. Buy life insurance to help beneficiaries fund the taxes from the distributions.
5. Utilize Roth IRA conversions. Even though Roth IRAs are still subject to the 10-year distribution rule, the distributions are not taxed.

✔**Make sure your spouse understands the rules for inheriting an IRA.** The SECURE Act did not change the rules for spousal IRA inheritances. 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 the 10% federal income tax 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 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. With the new 10-year distribution rule, this may be a valuable strategy for your beneficiaries. ❍❍❍

Retirement Withdrawal Strategies

Like your parents, you worked hard and saved hard, and now it is finally time to reap the rewards. Unlike your parents, you probably don't have a pension, Social Security benefits are uncertain, and healthcare costs are higher than ever. Today's retirees live longer and need to use more personal savings than previous generations. It's important to develop a withdrawal plan that will give you the best chance of not outliving your assets.

Where to Start — You want a plan that ensures you can meet your expenses and has the potential to keep growing, all while weathering inflation, market volatility, and taxes. Determine how you want to live in your retirement years. Define what expenses are non-negotiable like housing, and then expenses that are discretionary, such as traveling. One withdrawal strategy may be to use your reliable income, such as Social Security, for essential expenses and your investment income for things you want to do.

Keep It Growing — Building a strategy for growth is very different while in retirement. You will need an asset allocation strategy that uses a target asset mix of investments aligned with your risk tolerance, which will probably be different at this stage of your life than when you were younger.

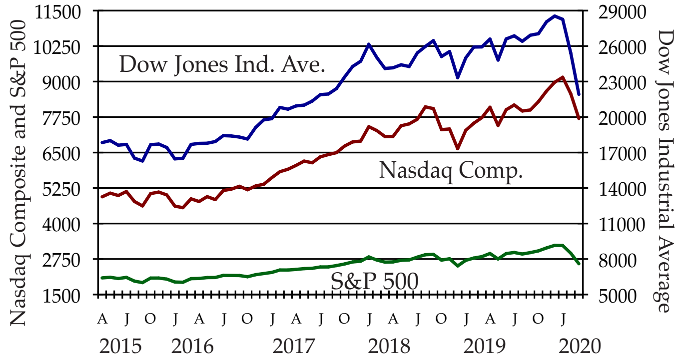
Monitoring and Rebalancing — Just like during your saving years, you need to monitor your portfolio on a regular basis. It may be wise to rebalance your portfolio due to market conditions or other factors that impact your life. While in the early years of your retirement, you may take more risk; as you age, you may want to be more conservative. ❍❍❍

Market Data

	Month End			% Change	
	Mar 20	Feb 20	Jan 20	YTD	12 Mon
Dow Jones Ind.	21917.16	25409.36	28256.03	-23.2%	-15.5%
S&P 500	2584.59	2954.22	3225.52	-20.0	-8.8
Nasdaq Comp.	7700.10	8567.37	9150.94	-14.2	-0.4
Wilshire 5000	25984.75	30203.72	32957.52	-21.3	-11.0
Gold	1608.95	1609.85	1584.20	5.6	24.2
				Dec 19	Mar 19
Prime rate	3.25	4.75	4.75	4.75	5.50
Money market rate	0.34	0.50	0.50	0.58	0.59
3-month T-bill rate	0.09	1.51	1.53	1.52	2.41
20-yr. T-bond rate	1.15	1.46	1.83	2.25	2.79
Dow Jones Corp.	3.81	2.52	2.59	2.84	3.74
Bond Buyer Muni	3.62	3.38	3.51	3.63	3.86

Sources: *Barron's, Wall Street Journal*

Stock Indices
April 2015 to March 2020



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Approximately 78% of Americans say they are extremely or somewhat concerned about not having enough money for retirement (Source: Northwestern Mutual, 2019).

About 28% of retirees say that life is worse in retirement than it was when they were working (Source: Nationwide Retirement Institute, 2019).

Of the retirees who were generally happy, 97% said they were happy because they had a strong sense of purpose (Source: Transamerica, 2019).

In 2018, the average participation rate in company retirement plans is 85.6% for plans with auto enrollment and 43.7% in plans without auto enrollment (Source: T. Rowe Price, 2019).

The more time an individual spends working part-time or is self-employed, the more likely it is they will work after retirement. Relative job status and job changes were also found to increase the chances of working after retirement. Men who spent their whole careers at the same job had an 8.2% probability of working after retirement, while those who had more than 10 jobs had a 16.3% probability (Source: *AAII Journal*, June 2019). ❍❍❍