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Financial Briefs

DECEMBER 2017

How Do You Know If You're Saving Enough?

Most people think when they start earning more money, they'll 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 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 probably have dependents. Your income may have increased as you climbed the ladder at your job or moved to a new one. And even with the increase in expenses, you 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.

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Ways to Save for Retirement

We all know we're supposed to save for retirement. But that's often easier said than done. There are many reasons for Americans' pitiful savings rates, including stagnant wages and an increasing cost of living. But our own behavior plays a role as well. How can you save more in a time when every dollar seems to buy a little less? Consider these suggestions:

Get a budget and reduce spending: If you're looking to save more, the first place to look is your current budget. Cutting spending where possible will free up more money to set aside for the future. While some of your expenses are fixed — most of us need to spend money on housing, food, and transportation — others are flexible. Spending a little less on dining out, canceling subscription services, or

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How Do You Know?

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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 need to be prepared.

Please call if you'd like to discuss this in more detail.

5 Reasons to Start Saving More

Saving money is a bit like exercising. We all know how important both are, but it can be hard to actually get into the habit of doing either. If you're interested in getting started with savings or want to save more, here are five reasons to help keep you motivated.

1. You'll Be Prepared for Emergencies — Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small, unexpected expenses, such as emergency room copays, minor car repairs, or a broken furnace. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises. Unfortunately at that point, you usually need money fast. Not only will you be forced to take on debt, but you won't have time to shop around, making it more likely you will end up with an expensive, high-interest loan. Plus the more debt you have, the more difficult it is to save. The result? A downward financial spiral that can be difficult to pull yourself out of.

2. You'll Be More Independent — Having savings gives you more flexibility and independence. With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Also, without savings, you're living on the financial edge and are more likely to find yourself stuck in situations you may not be satisfied with — working just to pay off debt, trapped in an unfulfilling job because you can't afford to search for better opportunities, or stuck in a less-than-desirable neighborhood because you don't have the financial resources to upgrade. Committing to saving today, even if it's just a small amount, will start to give you the freedom to make different choices in your life.

3. You'll Be Able to Reach Your Goals — We all have goals. Maybe you simply want to enjoy a comfortable retirement one day. Or perhaps you're dreaming of a second home by the lake, sending your kids to college, or starting your own business. Whatever your dreams, they likely have one thing in common — you're probably going to need some money if you want them to become a reality. Few of those dreams are achievable if you don't save for them.

4. You'll Be Able to Earn More Money — Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving rather than spending. And because of the power of compound earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

5. You'll Be Happier — No one wants to suggest that money is the only thing that can make us happy. But there's also evidence that *saving* money, even in small amounts, can make you happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to more unhappiness.

Convinced that saving for the future is the right thing to do? Please call to discuss how you can make regular saving a part of your financial plan.

Ways to Save

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choosing a cheaper cell phone plan could free up $50 or $100 in your monthly budget to dedicate to retirement. That may not sound like a lot, but it's a good place to start.

Get your match: If you're lucky enough to work for a company that offers a 401(k) plan and matches employee contributions, make sure you take advantage of it. Not contributing enough to get your match is essentially turning down free money.

Max out your 401(k) plans: In 2017, most people can contribute up to $18,000 a year to their 401(k) plan. Not everyone can afford to save up to the max; but whatever your income, you should contribute as much to tax-advantaged retirement accounts as you're able.

Contribute to an IRA: If you can't contribute to a retirement plan at work or want to save even more for retirement, consider setting up an IRA. Assuming you meet certain requirements, you can save up to $5,500 a year in these accounts.

Contribute to a health savings account (HSA): For people who are really intent on maximizing their retirement savings, consider HSAs. HSAs are primarily intended as a way for people who have high-deductible health plans to save for medical expenses. But any money you don't use for healthcare costs now can be used to pay for healthcare in retirement.

Make catch-up contributions: Once you reach age 50, you're eligible to make catch-up contributions to 401(k) plans and IRAs. You can contribute an additional $6,000 a year to your 401(k) plan and an extra $1,000 a year to your IRA. If you consistently make those contributions over the next 15 years (assuming you retire at 65), you will have an additional $105,000 for retirement — and that's without taking into account any growth in your investments.

Save in taxable accounts: Most people focus on saving for retirement in various tax-advantaged accounts like a 401(k) plan. But if you can't save for retirement that way or want to save even more, consider saving in more traditional ways. You can invest in a well-diversified investment account, bonds, or other savings vehicles. One advantage of putting some money in nonretirement accounts is you won't have to worry about things like mandatory withdrawals when you reach age 70½.

Take enough risk: Saving as much as possible is key to having a healthy retirement portfolio. But squirreling away dollars alone isn't enough. To really make the most of your money, you need to invest it. That means investing more in stocks when you're younger and gradually dialing down risk as you get closer to retirement. Being smart about risk is essential to meeting your retirement savings goals.

Don't take early withdrawals: When times get tough, people often turn to the money they've set aside for retirement to close the gap. But if it's at all possible, avoid touching that cash. Not only would you fall behind on your savings — creating a gap that is nearly impossible to make up — you would also get hit with penalties. Unless you need that money for a true emergency, like the prospect of losing your home or a major health crisis, leave it alone. You'll be glad you did so when the time comes to stop working.

Please call if you'd like to discuss ways to save for your retirement.

How to Make Saving a 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 you should focus on the 50/20/30 rule of budgeting.

The 50/20/30 Rule

The basics of this budget rule is that you divide 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 also to pay down debt. While something like a car payment is part of your necessities budget, extra payments to reduce your debt faster should come out of this portion of your budget.
- **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.

Priorities and Choices

A 20% savings rate will help ensure that you will have a comfortable retirement. However, this is not an easy thing for most Americans to do, especially when you consider the personal savings rate was only 5.5% in January 2017 (Source: *Tradingeconomics.com*, January 2017).

The major issue is many can't distinguish between necessities and lifestyle choices. For example, a car is a necessity for most people, but the type of car you purchase is often a lifestyle choice. This is also true for the type of housing we choose and the type of clothes we wear.

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.

The main point here is that for many, choices are made without thinking of the impact they may have on long-term savings. Please call if you'd like to discuss this topic in more detail.

Business Data

	Month-end				
Indicator	**Aug-17**	**Sep-17**	**Oct-17**	**Dec-16**	**Oct-16**
Prime rate	4.25	4.25	4.25	3.75	3.50
3-month T-bill yield	1.02	1.05	1.02	0.56	0.35
10-year T-note yield	2.22	2.26	2.33	2.55	1.76
20-year T-bond yield	2.57	2.57	2.61	2.86	2.17
Dow Jones Corp.	2.95	2.97	3.08	3.17	2.76
GDP (adj. annual rate)#	+1.20	+3.10	+3.00	+2.10	+3.50

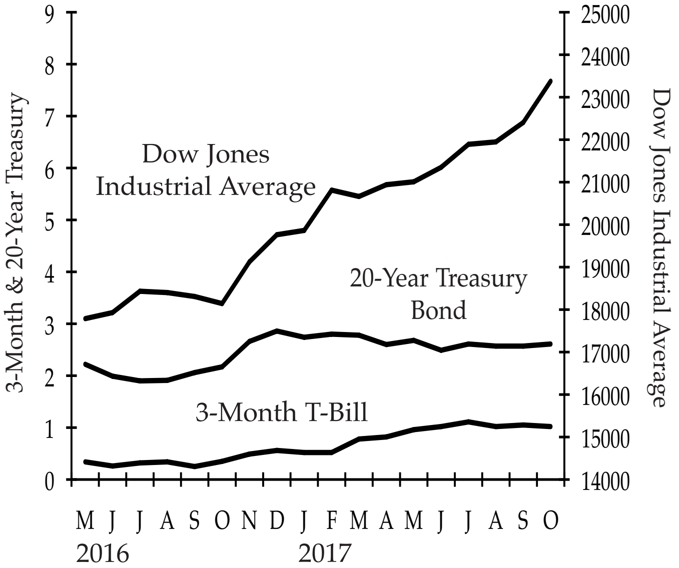
	Month-end			% Change	
Indicator	**Aug-17**	**Sep-17**	**Oct-17**	**YTD**	**12-Mon.**
Dow Jones Industrials	21948.10	22405.09	23377.24	18.3%	28.9%
Standard & Poor's 500	2471.65	2519.36	2575.26	15.0%	21.1%
Nasdaq Composite	6428.66	6495.96	6727.67	25.0%	29.6%
Gold	1311.75	1283.10	1270.15	9.6%	-0.1%
Unemployment rate@	4.30	4.40	4.20	-8.7%	-16.0%
Consumer price index@	244.80	245.50	246.80	2.2%	2.2%
Index of leading ind.@	128.30	128.80	128.60	3.7%	3.4%

# — 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep Sources: *Barron's, Wall Street Journal*

Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

May 2016 to October 2017



News and Announcements

Pay Yourself First

The advice sounds simple enough — to force yourself to save regularly, treat those savings as a bill to yourself and pay that bill first every month. But when you're faced with a stack of bills, you're likely to skip paying yourself for at least another month. Unfortunately, those months can add up with little in the way of savings. If you're looking for ways to start paying yourself first, consider the following:

- **Reduce spending, diverting those reductions to savings.** One way to accomplish this is to cut back on your spending, perhaps reducing your expenditures for dining out, traveling, clothing, or entertainment. But for many people, this feels too much like sacrifice, making it difficult to stick with this strategy. Another alternative is to find ways to spend less for the same items. For instance, get quotes for your car and home insurance from several companies, placing any premium reductions in savings. Or find ways to reduce your borrowing costs. Just make sure any reductions in your costs go directly to your savings.
- **Save all unexpected income.** Immediately save any money from tax refunds, bonuses, cash gifts, and inheritances. Before you get used to any salary increases, put that raise into savings.
- **Make saving automatic.** Resolve to immediately set up an investment account that automatically deducts money from your bank account every month. Start out with small amounts. As you get used to saving on a regular basis, increase the amount periodically. Another good alternative is to sign up for your company's 401(k) plan. *(Keep in mind that any automatic investing plan does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investment, consider your financial ability and willingness to continue purchases through periods of low price levels.)*

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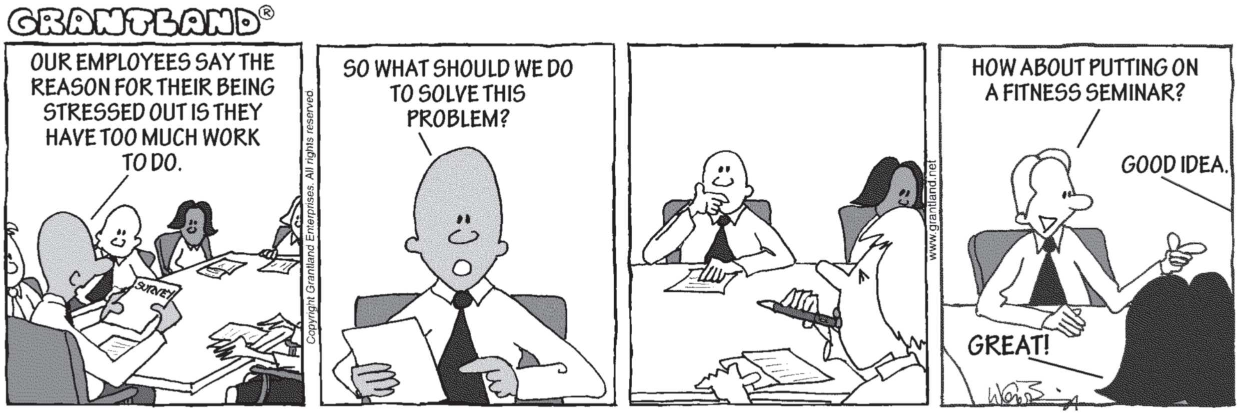

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