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Financial Briefs

NOVEMBER 2016

Saving and Life Planning

We are all unique, so there's no one financial plan that will suit everyone. But that doesn't mean there aren't some broad guidelines to fit common situations. So when it comes to your savings, here are some benchmarks to indicate whether you're following the right priorities and are on track for meeting your financial goals:

In your twenties. Typically, this is the age when you're likely to have the lowest income in your working life, but also the fewest dependent-related expenses. At this stage, you should have two top priorities: First, you should concentrate on building an emergency fund equal to three to six months of living expenses held in short-term savings vehicles.

Second, you should begin putting money into an individual retirement account (IRA) or 401(k) retirement plan. The advantage of beginning to save for retirement at this age is time: in a tax-deferred account, even relatively small amounts can grow into significant assets when you have 35 to 40 years to harness the power of compounding. For example, if you contribute just $2,000 a year to an IRA and it grows by 8% a year, after 30 years, it could be nearly $227,000 and more than $518,000 after 40 years. *This example is provided for illustrative purposes only and is not meant to project the performance of an actual investment.*

You may have a third priority: saving for a down payment on a house. It's best if you can accumulate 20% of the price of the house to avoid having to pay private mortgage insurance, but whatever you can accumulate will help keep your mortgage payments lower.

In your thirties and forties. If you have children, it's a good idea to be saving for their educations.

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How to Set Savings Goals

Setting clear, specific savings goals is one of the best ways to achieve your financial objectives, but it's a task many people struggle with. Unfortunately, establishing savings goals is actually a bit more complex than simply choosing a random number and hoping you can eventually set aside that much cash. Below is a simple, seven-step plan that you can use to set — and reach — your savings goals.

1. Select Goals

Before you start saving, it helps to know what you are saving for, since most of us find it easier to save money if we know it will eventually be used for a specific purpose. Common savings goals are creating an emergency fund with at least six months of living expenses or saving for retirement, a child's college education, a down payment, or a vacation. Your goals will be as unique as you are; the most important thing is that you select them and make them as specific as possible.

2. Determine How Much You Need to Save

Exactly how much money do you need to accomplish your goal? For example, you may want to have $5,000 saved for your dream vacation, $30,000 for a down payment on your first home, or $1 million for retirement. Don't just choose a random number at this point — research how much you'll actually need, so that you can be confident that your savings will be sufficient to get you to where you want to be.

3. Consider Your Timeline

Savings goals can generally be divided into three broad categories: short-term (those you hope to reach in a year or less), mid-term (those that are roughly one to five years away), and long-term (goals you hope to achieve in five years or more). It's important to know your timeline, since it will have a direct impact on how aggressively you

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Saving and Life Planning

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Consider a tax-advantaged 529 college savings plan that you can invest in the stock market. The principle here is that if you have more than five years before college bills start coming due, you can afford to take some risk to potentially achieve a higher rate of return than you might from bonds or other safer investments.

Now you should begin to increase your contributions to your retirement accounts. The more you can put aside now the better, as you still have 25 to 30 years of compounding. Your emphasis should still be on the stock market; although by your late forties, you might consider increasing your bond investments to guard against losses due to market shocks.

In your fifties. This is normally the time when people make their largest contributions to their retirement accounts because their incomes are close to the highest of their careers; and if they have any children, they're typically out of college and on their own.

Federal limits on annual contributions to retirement plans are more generous at this age, too. For example, as of 2016, below age 50 there's a ceiling of $5,500 for contributions to IRAs and $18,000 to 401(k) plans, but at age 50, those limits increase to $6,500 and $24,000, respectively.

It takes in-depth calculations to determine how much your retirement portfolio should be and whether you're on track to meet the accumulated value of the nest egg you'll need to retire. That said, it's not unusual for people who are in their fifties to have accumulated only about half of what they'll need by age 65, yet still be on track for a well-funded retirement. (If your account balances are considerably less than half of what you'll need, you might have some catching up to do, or it might be necessary to consider retiring at an older age.)

In your sixties. This is the home stretch of the period during which you acquire assets for retirement. As you enter this decade of your life, you should still be contributing more than you ever have to your retirement accounts.

With less than five years before you retire, you should consider reshaping your portfolio to include greater percentages of lower-risk investments.

It's never too early to create or update your financial plan, so please feel free to call.

Overcoming 5 Retirement Fears

We've all heard stories about people losing all of their retirement money in a stock market crash, outliving their money, or incurring unexpected medical expenses that force 80-year-olds back into the labor pool. Are these fears likely to become realities? Probably not, but here's how you can deal with them.

1. Outliving your money — There's a rule of thumb to decrease the odds of outliving your money over a 25-year retirement: by the time you're ready to retire, you should have saved eight times your annual salary. To get there, gradually work up to it. Of course, the amount of money you'll need to have saved by the time you're ready to retire depends on a huge range of very individual factors: What are your plans for retirement? How old are you? Will you still have a mortgage? Do you have long-term-care insurance? So to truly decrease the odds that you'll outlive your money, work with a financial advisor to develop a robust retirement plan.

2. High inflation — What if inflation went up to 12–14% as it did in the 1970s? It's probably not likely inflation would spike like that again. However, because it has happened before, you'll want to be prepared. This is where an annual review of your investments can be wise. That is the point of diversification: if you are properly diversified, your portfolio should include investments that move opposite of each other — so when one asset class or subclass is down, another is up.

3. Unexpected medical expenses before retirement — Unexpected medical expenses you may incur while you are still working could totally derail your retirement. To prepare for them, it's important to have insurance in place, such as disability and life insurance. Disability insurance will ensure that if you do lose your income due to a disability, you will still be able to take care of your basic necessities. Life insurance will protect your family in the event of your death — especially important if your income was the key to your spouse's retirement.

4. Unexpected medical expenses during retirement — For most people, health care is one of the largest (often *the* largest) expense incurred during retirement. There are a few ways to prepare for medical emergencies: private health insurance to fill the gaps in Medicare, long-term-care insurance, and rainy day savings. For today's retirees, Medicare takes care of most medical expenses, however, you need savings to cover what insurance won't — like copays and expenses exceeding your insurance limit. And just as you save before retirement for unexpected expenses, so should you continue your rainy day fund in retirement. Even if you are adequately insured, copays can be significant if you have a medical emergency.

5. Market crash — As with high inflation, the key to surviving a market crash is diversification. There is no way to insulate yourself completely from the effects of economic turmoil. But you can take steps to ensure that turmoil doesn't completely ruin your retirement plans. As you get closer to retirement, you should be invested less heavily in equities and more in investments such as bonds.

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How to Set Savings

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need to save and where to put your money to hit that target.

4. Determine How Much to Set Aside Each Week or Month

For short-term goals, this step is fairly simple. Say you plan to get married in a year, and you want to have $10,000 saved toward that goal before your big day. To meet that goal, you'll need to save roughly $833 per month for the next year, or $10,000 divided by 12.

Determining how much you need to save to reach your long- and mid-term goals can be a bit more complicated, as you'll need to take into account the growth of your investments. There are online calculators you can use to estimate how much you'll need to save every month if you want to have $1 million for retirement by the time you retire at 65, or $30,000 for a down payment in three years.

Whatever the time frame for your goals, making these calculations is important, because it allows you to adjust your savings as your budget allows. For example, if you can't afford to save the over $800 a month you need for the wedding, you have two options: You can either adjust your timeline or opt to keep it the same and save less.

5. Automate Your Savings If Possible

Once you know how much you need to save, you'll likely find it easier to stick to your plan if you can automate your savings. Adopt the pay-yourself-first principle and set up automatic transfers to your savings or investment accounts. The key is to save the money before you ever have a chance to spend it, as well as to avoid forgetting to make the transfers.

6. Choose the Right Way to Save

Depending on your goal and timeline, you have different options for savings. Traditional savings accounts are a good option for short-term goals, since your money will be safe; while investment accounts and retirement accounts, like a 401(k) plan or IRA, are good options for longer-term goals, since you'll earn money as you save.

7. Watch Your Money Grow

Once you have your savings plan in place, keep an eye on how it is doing. You will need to periodically review your results and make adjustments as necessary.

Retirement Planning Advice for Students

Rare is the college student who earns a lot of money. But no matter how much money you earn, now is the time to start thinking about retirement planning. One of the biggest regrets among retirees is that they didn't start soon enough. Here are five tips that every college student should know about retirement planning:

1. Start saving. No matter how much money you make, it is important to allow room for savings. Live below your means. Sometimes you may only have $10–$20 to put into savings, other times you may have $100. People get caught up about how much they're saving; but at this age, it's far more important to simply be saving — whatever the amount.

2. Open and contribute to an investment account. If you work for a company that offers an employer-sponsored retirement plan, sign up and contribute monthly. A 401(k) plan is an easy way to save for retirement: this money comes right out of your paycheck, you don't have to do any active management of the investments, and you can always roll it over to another 401(k) or IRA when you change jobs. Best of all, many companies will match your contributions to a 401(k) plan. If your employer matches, try to contribute at least what they will match.

If you do not work for a company that offers an employer-sponsored plan, you can open up an individual retirement account (IRA).

3. Maintain an emergency account. Putting money away for retirement may be premature if you don't have rainy-day savings. You should have an emergency fund with about six months worth of living expenses. This should be in a separate account from your retirement or other savings. Having separate accounts will help you avoid dipping into your retirement or other savings for unexpected emergencies (losing your job, car repairs, etc.).

4. Say no to debt. Many college students have some form of debt — student loans, car payments, or credit card debt. If you do, it's important to pay down that debt. Most student loans are deferred until after you graduate, so if you have other debts, focus on paying those off first. Also, avoid accruing new debts. Save for big purchases instead of charging them. We all hear about college students graduating with huge debt burdens that in many cases stifle future plans. Some debt — like student loans — can work to your advantage (for example, if it allows you to get the education you wouldn't otherwise); but generally, the less debt you have, the better off you'll be.

5. Knowledge is power. Stay knowledgeable about your money and about the economy. Learn about your options, talk to a financial advisor, seek counsel from your parents or grandparents, and read financial articles. The more you know, the better able you will be to make financial decisions.

For many young people, college is when you discover who you are and who you want to be. It's a time to break away from the family unit, meet new people, have fun, try new things. Although retirement planning is often far from college students' minds, it is the perfect time to start saving. Please feel free to call if you have any questions or need help getting your plan started.

Business Data

Indicator	Month-end Aug-16	Sep-16	Oct-16	Dec-15	Oct-15
Prime rate	3.50	3.50	3.50	3.50	3.25
3-month T-bill yield	0.34	0.25	0.35	0.26	0.02
10-year T-note yield	1.56	1.66	1.76	2.24	2.06
20-year T-bond yield	1.91	2.06	2.17	2.60	2.50
Dow Jones Corp.	2.51	2.57	2.76	3.43	3.30
GDP (adj. annual rate)#	+0.80	+1.40	+2.90	+1.40	+2.00

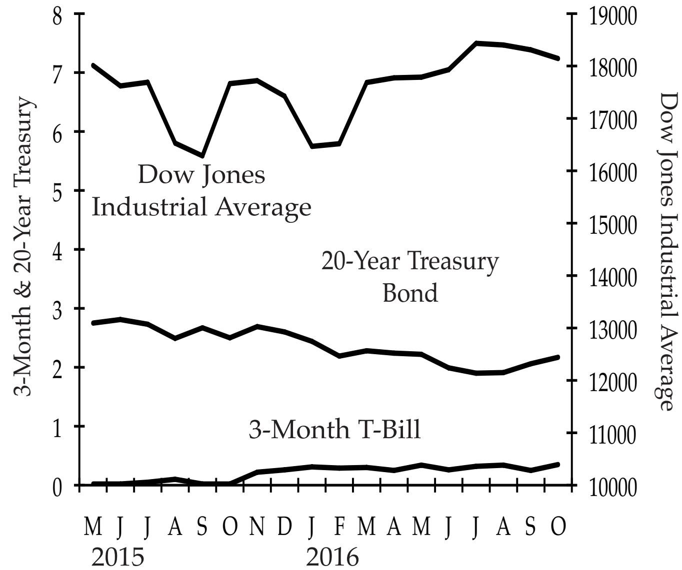
Indicator	Month-end Aug-16	Sep-16	Oct-16	% Change YTD	12-Mon.
Dow Jones Industrials	18400.88	18308.15	18142.42	4.1%	2.7%
Standard & Poor's 500	2170.95	2168.27	2126.15	4.0%	2.3%
Nasdaq Composite	5213.22	5312.00	5189.13	3.6%	2.7%
Gold	1309.25	1322.50	1272.00	19.7%	11.3%
Unemployment rate@	4.90	4.90	5.00	0.0%	-2.0%
Consumer price index@	240.60	240.80	241.40	1.7%	1.5%
Index of leading ind.@	124.30	124.10	124.40	0.4%	0.9%

— 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 2015 to October 2016



News and Announcements

Keep Saving after Retirement

Just because you're retired doesn't mean you should stop saving. Carefully managing your money and looking for ways to save will help ensure you remain financially fit during retirement. Consider these tips:

- **Construct a financial plan.** Create a financial plan detailing how much money will be obtained from what sources and how that income will be spent. Review your plan annually to ensure you stay on course.
- **Consider part-time employment.** Especially if you retire at a relatively young age, you might want to work on at least a part-time basis. However, if you receive Social Security benefits and are between the ages of 62 and full retirement age, you will lose $1 of benefits for every $2 of earnings above $15,720 in 2016.
- **Contribute to your 401(k) plan or individual retirement account (IRA).** If you work after retirement, put some of that money into a 401(k) plan or IRA.
- **Try before you buy.** Want to relocate to another city or purchase a recreational vehicle to travel around the country? Before you buy a home in an unfamiliar city or purchase an expensive recreational vehicle, try renting first.
- **Keep debt to a minimum.** Most consumer loans and credit cards charge high interest rates that aren't tax deductible. During retirement, that can put a serious strain on your finances. If you can't pay cash, avoid the purchase.
- **Look for deals.** Take the time to shop wisely, not just at stores, but for all purchases. When was the last time you compared prices for auto or home insurance? Can you find a credit card with lower fees and interest rates? When did you last refinance your mortgage?

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