reinventing retirement

Your Retirement Planning Newsletter

Fourth Quarter 2015

Walk the Red Carpet to Retirement

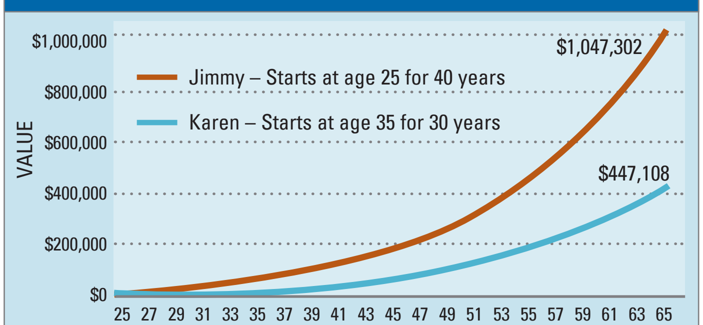
Supporting actors can help prepare you for your retirement close-up

It's no coincidence that the best film award of the year is announced at the very end of the annual Academy Awards® in Los Angeles.[1] While it is entertaining to watch stars pose on the red carpet, laugh at Billy Crystal dancing across the stage, and tear up at emotional acceptance speeches, we all stay up late in anticipation of the big reveal, the ultimate payoff—for many, a moment just as dramatic as proudly accepting an award in front of a celebrity audience.

How you invest for retirement is like a producer preparing an Oscar®-worthy film—combining top writers, directors, lead and supporting actors, composers and editors. The same idea applies to your retirement—you need support from your employer, pretax paycheck contributions, asset allocation decisions and ongoing monitoring in order to make your "winning picture" in retirement. Here are four ways to walk away with the Oscar.

1. **Play a role matched to your strengths.** If you participate in your company 401(k) plan, your employer may make matching contributions if you are saving enough to qualify for the maximum match. Taking advantage of the match can make a big difference in your savings, as the following chart shows.

401(k) Matching Over Time



Assumes monthly contribution of $300 ($200 employee contribution, which is 6% of salary, and $100 match) earning 8% return compounded monthly over 40 and 30 years. This example is not intended to predict the performance of any investment. All investing involves risk, including loss of principal. The example does not include the effect of fees and expenses; if it did, returns would be lower.

Let's pretend Jimmy and Karen start working at a Hollywood studio at age 25. The studio's retirement plan matches 50 cents for every dollar that an employee contributes to his or her account up to a maximum of 6% of his or her salary. While Jimmy and Karen each make $40,000 per year, Jimmy begins saving in the company plan right away and takes full advantage of the employee match of $1,200 per year for 40 years.

Karen, on the other hand, lives in the moment and decides to put off saving. She joins her 401(k) plan at 35 and contributes the maximum 6% of her salary—just as Jimmy had done 10 years earlier. However, Karen has just 30 years to build her nest egg.

Who do you think has more money at age 65? That's right, Jimmy, by $600,194! Time to break out the champagne, Jimmy, for having the foresight to invest as early as possible!

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[1] Academy Awards®, Oscar® and the Oscars® are trademarks of the Academy of Motion Picture Arts and Sciences.

Taxes Matter

What you need to know about IRA rollovers

When you change jobs, it may be tempting to cash out your 401(k) plan. But doing this could derail your retirement savings just when it's important to keep your money growing tax-deferred. Rolling over your assets to an individual retirement account (IRA) is one of the most popular options available to help keep your money growing tax-deferred. Here are a few items to keep in mind.

It may be better to stay put

If you've been happy with your plan, and your employer permits it, it may be just fine to keep your 401(k) balance intact where it is. Plus, your 401(k) may offer you access to loans in emergencies—a feature not available in an IRA.

Don't cash out

Unless you absolutely need the money to live on, most experts advise against cashing out of a 401(k). If you're under 59½, you will be subject to a 10% penalty and income taxes on the withdrawal. It also can cause you to lose the discipline that comes from investing each pay period.

Roll with it

A new employer's plan may offer access to investments not offered in your current plan. Tracking expenses is important, as they often create the biggest drag on your investment returns after taxes. Always read the fine print—annual fees and expenses could be higher than those in your current plan.

Broaden your horizons

You may be able to access even more investment options by rolling your 401(k) balance into an IRA. By moving your funds into an IRA brokerage account, for example, you may be able to invest in stocks, bonds, mutual funds and exchange-traded funds (ETFs) that are better suited to your investment goals. However, be sure to compare the fees in your 401(k) versus the fees in the proposed IRA before you make the decision to rollover.

Remember that consulting with a financial advisor may help you determine your best course of action.

Walk the Red Carpet to Retirement

(continued from front page)

2. **Credit your paycheck and retirement plan as supporting actors.** Pretax contributions from your paychecks are unseen, but they are vital players. Your plan makes it easy to contribute, stay invested and generate income[2] once you retire and offers a range of investment options to meet your needs.
3. **Ask your director for feedback.** A financial advisor can be your director—helping put together a retirement income strategy that takes into account an appropriate balance of stocks, bonds and cash, relative to the risk you are willing to take on, and advising you on how much you can sensibly withdraw once you retire.
4. **Keep a level head.** Don't invest all of your money in riskier stocks. Diversifying your retirement account may help cushion it from market downturns.[3] You want to make sure you walk away with the Oscar, not empty-handed.

It takes a strong support team behind the winning actors to help them reach the Academy Awards stage. You are not alone in your retirement plans, either. See you at the after-party!

[2] Withdrawals from qualified plans made prior to age 59½ may be subject to a 10% IRS penalty and income taxes.

[3] Diversification does not guarantee a return or protect against losses.

Investing in Your 20s and 30s: Millennials Think Differently

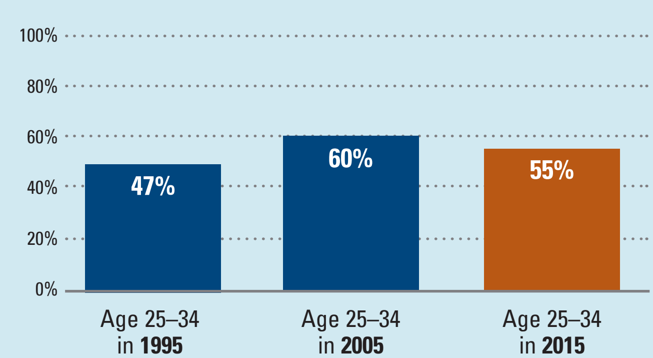
Staying socially and emotionally engaged may be key to investing for your future

Millennials are often criticized in the press for putting off financial planning and being too risk-averse. According to a 2014 survey, millennials devote less than one-third (28%) of their portfolio to stocks and over half (52%) to cash, while non-millennials keep almost half of their portfolio (46%) in stocks and less than a quarter (23%) in cash.[4]

If you fit this picture, there may be a good reason you've put off saving and investing. For one, you've just witnessed the effects the Great Recession had on your parents. Or, like millions of other college grads, you may have thousands of dollars in student loans due. Saving may not be a priority.

Staying out of the retirement savings arena is a decision that could significantly affect your quality of life down the road. Notwithstanding the economic recovery that began in earnest in 2009, 32% of 18- to 30-year-olds said they haven't started investing in their retirement because they don't know enough. And fully 42% claimed they didn't have enough money to invest.[5] A recent Wells Fargo study showed that most millennials put half their income toward paying off debt, with a roughly equal number claiming that they live paycheck to paycheck.[6]

Only 55% of Millennials, Those Age 25-34, Have Saved for Retirement



Source: Employee Benefit Research Institute and Greenwald & Associates, 1995–2015 Retirement Confidence Surveys.

Head or heart: How do you make decisions?

While the baby boomer generation grew up digesting streams of logic-based data and print media, the way that millennials absorb information and communicate is considerably different. According to Stanford Professor BJ Fogg[7], you may be wired to respond better to short, digestible videos on investing topics, directed one-task workshops, and more motivational approaches designed to inspire taking action.

No matter your age, when investing, emotion plays a more important role than you may recognize. Some of our earliest memories of money inform our lifelong relationship with it. If you've talked to anyone who lived through the Great Depression, which completely destroyed 9 million savings accounts in three years[8], you will understand how risk-averse this group has been from a young age.

While there are parallels between the Great Depression and Great Recession, you are likely to have very different response mechanisms to up and down markets than your parents or grandparents. Having grown up with social media, you probably have a support network in place. This helps to know you are not alone. But there are also innovative sources of retirement advice available online or that exist in less formal settings and are designed to be more relevant to the digital generation.

For example, some financial advisors and digital communications firms, such as the Society for Grownups, put on small, in-person "salons" on subjects outside of financial planning and tie them into financial planning, such as investing and fine wine, dinners, classes and coffee dates. You can be sure that whatever appeals to your personality and interests, there's probably a group out there talking about it—and making investing part of the conversation.

Wherever you connect financially as a millennial, it's important to find a more relaxed way of talking about retirement—one that instills confidence to take action. Rather than formalized financial education that you might get at a work meeting, you may enjoy interacting with others who are in a similar life stage, willing to share their knowledge of saving and investing.

While no two investors are alike, fortunately, there are resources that can help in making complex decisions—like how much to save—easier.

[4] Http://money.usnews.com/money/personal-finance/mutual-funds/articles/2014/06/16/why-arent-millennials-investing-fear-isnt-the-only-factor

[5] Source: bankrate.com

[6] Http://money.usnews.com/money/personal-finance/articles/2014/06/18/why-millennials-still-dont-save-enough

[7] "Baby Steps," NAPAnet Magazine, June 2015

[8] H. Goodson, Coursework: "Handout 10: The Great Depression," http://www.westga.edu/~hgoodson/The%20Great%20Depression.htm

retirement in motion

Tips and resources that everyone can use

Boomers on the Brink: Issues Affecting Participants as They Approach Retirement

Estate planning is not just for millionaires

Having a core set of current planning documents, including a will, power of attorney and health care proxy, is critical to ensuring your wishes are carried out after you die. The operative word is "current." You need to check periodically that the beneficiaries on your retirement accounts and insurance policies are up-to-date (particularly if you're recently divorced). And everyone needs to ask: "What happens to the family finances if the chief breadwinner has a health setback or accident?"

Q&A

When does it make sense to work with an accountant?

Some only contact a CPA once a year, at tax time (or not at all if they rely on tax-prep software). But checking in with a knowledgeable CPA before taking money from your retirement account can help you avoid poorly timed withdrawals, which could mean paying more taxes on Social Security benefits. Decisions you make with regard to your retirement plan can have a profound effect on your tax situation. Just as hiring a financial advisor can help you accumulate a nest egg and manage investment risk, hiring a tax advisor (and a lawyer to set up your estate plan) can ultimately save you a lot of money over the course of a retirement that can last 30 years or more.

Tax laws are complex and subject to change, so you should consult with a tax advisor before you take any distribution from a qualified retirement account.

Quarterly Reminder

There's no escape: Taxes are due April 15. There are things you can do before the tax filing deadline to reduce your 2015 tax bill. Consider showing last year's return to your financial or tax advisor, who may be able to identify strategies for increasing your tax refund this year.

Tools and Techniques: Resources to Help Guide Your Retirement Plan

Roth IRAs

If you are thinking about funding a new Roth IRA by converting a portion of your traditional IRA, you need to keep a few things in mind. First, the deadline for conversions is December 31, 2016, for the 2016 tax year. Second, converted assets in the Roth IRA must remain there for five years to avoid penalties and taxes on any withdrawals (i.e., five years have passed and you have reached age 59½, become disabled or make a qualified first-home purchase). Third, if you are required to take a required minimum distribution (RMD) from a traditional IRA in the year you wish to convert, you must take the RMD before converting to a Roth IRA. Paying attention to these rules will help you receive the benefits of a Roth IRA, which include tax-free growth and withdrawals, estate planning benefits, and no minimum required distributions at age 70½.

Corner on the Market: Basic Financial Terms to Know

Bond ladder

In a bond ladder, the bonds' maturity dates are spaced evenly across several years so that the bonds mature and proceeds reinvest at regular intervals. This helps to match an investor's need for regular income without locking in a potentially low interest rate for a long period of time.

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