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FINANCIAL CONCEPTS

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Reassess Your Retirement Plan

Approximately five years before you plan to retire, thoroughly reassess your retirement plans and ensure that all significant financial pieces are in place. Once you retire, you probably won't have the option of going back to your former job. So before you retire, consider these points:

- **Take a serious look at your retirement plans.** You're close enough to retirement that you should have a good feel for your retirement expenses and expected income. While you may be anxious to retire, remain flexible about your retirement date. Working an additional year or two can add substantially to your retirement savings and may boost your retirement benefits.
- **Get a fix on your Social Security and pension benefits.** Make sure you know exactly how much you can expect from Social Security and defined-benefit plans. How much will your benefits increase if you delay retirement by one year, five years, etc.? If you retire before full retirement age for Social Security purposes, do you plan on still working? Be aware that for those under full retirement age for Social Security purposes, earnings over $15,480 in 2014 will cause you to lose $1 of benefits for every $2 of earnings over this threshold. Make sure you understand your distribution options for any defined-benefit plans. In most cases, those decisions are irrevocable, so you'll want to take some time to assess those options.
- **Determine how much income your retirement investments will generate.** As a general rule of thumb, you can multiply your retirement investments by 4% to

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Overdiversification

Diversify. Diversify. Diversify. While this investment advice seems to be continually discussed, it is possible to overdiversify, which can lead to lackluster returns. Thus, it is important to know the difference between healthy diversification and excess diversification.

The primary benefit of diversification for your portfolio is to spread market risk over different stocks in a way that will decrease the impact any one stock will have on your total return. With an appropriate level of diversification, your overall return will not be significantly impacted if one or even a few investments do not perform as expected.

Thus, it is not just the number of investments you hold that impacts your return, but how those investments interact with one another. If you keep adding investments that react to the market in the same way, you are not really diversifying. You are just adding similar investments to your portfolio.

Adding too many investments to your portfolio also makes it more difficult to monitor them. With too many investments to keep track of, it is more likely that you will miss important information about investments.

Please call if you'd like to review the level of diversification in your portfolio. ❍❍❍

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Reassess

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get an idea of how much you can withdraw annually. You can go through a more detailed analysis, reviewing a wide range of variables for a more precise answer. However, the younger you retire, the more conservative your withdrawals should be, since your funds will have to last for a longer time period.

- ❍ **Investigate work options.** If you plan to work at least part-time during retirement, have you decided what you'll do and how much it will pay? Make sure you investigate your options, including asking your current employer about part-time opportunities after retirement.
- ❍ **Finalize living arrangements.** Determine whether you want to stay in your current home or move to another one, either in the same city or a different location. At this point, you should be able to determine whether you'll have a mortgage and how much equity you'll have in your home. While most retirees continue to live in their current home, explore whether it makes sense to downsize, freeing up home equity for investments or retirement income.
- ❍ **Deal with health insurance and long-term-care costs.** Two of the most significant costs in retirement are medical care and long-term care. Make sure you have plans to deal with both. If you are retiring at age 65 or later, you'll be eligible for Medicare, although a spouse under age 65 will not. You will probably need supplemental coverage with Medicare. If you are retiring before age 65, make sure you know exactly how much coverage will cost you, especially if coverage is not provided by your employer. Now is also a good time to take a look at long-term-care insurance, since premiums get significantly more expensive as you age.
- ❍ **Live with your retirement budget for a couple of years.** Want to really make sure your retirement budget is reasonable? Try living with your retirement budget for a couple of years before retirement. If you can do so without increasing your debt, you can be reasonably confident that your budget will work during retirement.

Please call if you'd like help assessing your retirement plans before you retire. ❍❍❍

How Financial Plans and Retirement Plans Differ

According to the most recent (2012) Household Financial Planning Survey conducted by the Certified Financial Planner Board of Standards, only 31% of financial decision makers have a comprehensive financial plan. If the survey had asked respondents to define comprehensive financial plan, few probably could have; most people define financial plan synonymously with retirement plan. In reality, a retirement plan is just one component of a comprehensive financial plan, which also covers savings, investments, insurance, education planning, emergencies, major purchases, and other financial goals.

What is a financial plan? If you imagine your life like a road trip, your financial plan is the map that guides you from point A to point Z, making all the stops you had envisioned along the way (those are your goals) without ever running out of gas.

Your financial plan hinges on the goals you set — living within your means today, as well as saving for near-term goals like a family vacation or new car, for medium-term goals like children's college educations, and for long-term goals like retirement.

What is a retirement plan? A retirement plan is one component of a complete financial plan; if your financial plan is your master road map, your retirement plan is like a map inset, providing the details to get you from where you are now to your retirement and to live the kind of lifestyle you want once you're retired.

Your retirement plan takes into account your age, your current financial situation, and your goals for retirement. It includes, most basically, how much you need to set aside in what kind of investments (as well as the help you'll get from pension plans, Social Security benefits, and health care benefits).

While financial planning and retirement planning are not the same, you cannot have an effective retirement plan without a comprehensive financial plan. Why?

Because if you don't have a financial plan in place to meet unexpected, short-, and medium-term goals, your chances of achieving your long-term goals (retirement) are slim. At the same time, unless you truly plan to work until the day you die, a retirement plan is an essential component of a comprehensive financial plan.

It is important that you keep both your financial plan and your retirement plan up to date. Both plans are based on assumptions about your current situation, including income, expenses, goals, investment returns, and tax rates. When those factors change, your plans need to change as well. Please call if you'd like to discuss this in more detail. ❍❍❍

An Investment Plan for College Costs

To meet your goal for funding a child's college education, you typically need to develop an investment plan. One of the more important factors is your child's age:

❍ **Children age 10 or younger** — With eight or more years until college, you should be able to fund your child's education by setting aside reasonable sums. Since inflation can have a major impact, consider investments with higher return potential. Your long time frame should give you time to overcome any short-term setbacks while keeping ahead of inflation.

❍ **Children ages 11 to 14** — With four to seven years until college, you may want to select more conservative investments. If you are just starting to save now, you may find the needed amounts quite large. However, start saving so you'll have some funds accumulated by the time your child enters college.

❍ **Children ages 15 to 18** — At this point, continue switching to more conservative investments as college quickly approaches. If you are just starting to plan for college now, it may be very difficult to save the large sums needed in such a short time. Investigate the financial aid process to see if you'll qualify for aid, and research your borrowing options.

Other items to keep in mind when developing an investment strategy include:

❍ **Start investing as soon as possible.** This can have a huge impact on the amount you need to save on an annual basis.

❍ **Look for tax-advantaged ways to invest.** If your earnings are tax deferred or tax free, you could end up with a much larger balance than if you had to pay taxes on earnings over the years. Take a look at section 529 plans and Coverdell education savings accounts, both of which allow tax-free distributions as long as the proceeds are used for qualified educational expenses. Investigate these options thoroughly, however, since various qualifications and restrictions apply.

❍ **Select investments that allow periodic contributions.** You may want to make contributions on a weekly or monthly basis, so select investments that allow small contributions. You may also want the ability to automatically transfer funds from a checking or savings account to your college investments.

❍ **Adjust your investment mix over time.** As your child gets closer to college age, start moving investments from more aggressive ones with higher return potential to more conservative ones that will help protect your principal. This can help protect your investments from a major downturn that may occur right before your child enters college.

❍ **Review your progress annually.** Review your investments at least annually so you can make any necessary adjustments. You may decide to change investments or increase the amount you are saving on an annual basis. ❍❍❍

Planning Year-Round

Many people confuse tax planning with tax preparation and only think about the subject when preparing their annual tax return. However, there is little you can do to actually lower your tax bill when preparing your return. If your goal is to reduce income taxes, you need to be aware of tax planning opportunities throughout the year.

Take time early in the year, perhaps as part of the tax preparation process with your tax advisor, to assess your tax situation, looking for ways to reduce your tax bill. Consider a host of items, such as the types of debt you owe, how you're saving for retirement and college, which investments you own, and what tax-deductible expenses you incur. It often helps to discuss these items with your tax advisor who can review strategies you might not have considered.

During the year, consider the tax consequences before making important financial decisions. This will prevent you from finding out later that there was a better way to handle the transaction for tax purposes.

Look at your tax situation again in the fall, which gives you plenty of time before year-end to implement any additional tax-planning strategies. At that point, you'll also have a better idea of your expected income and expenses for the year. You may then want to use strategies you hadn't considered earlier in the year, such as selling investments at a loss to offset capital gains. ❍❍❍

Organizing Your Estate

Estate planning is an ongoing process that rightly entails careful recordkeeping, review, and updates for the rest of your life to keep up with changes in the markets, laws, and your family. When you've finished creating the plan, the next step is to make it possible for your survivors to activate it easily and confidently when the time comes. And that means organizing your estate so all those documents are readily available.

While it isn't necessary or even desirable to keep every piece of paper documenting your financial life, keeping the most important documents well organized can save significant time for settling your estate.

Recognize that it's not just the estate documents you've created that you have to organize. It's also a wide array of documents that serve as proof of purchase and ownership of your assets and document your and your spouse's key life events. One of the best ways to organize them all is to collect them by category and create another master document that explains what they are, where they are, the first steps your spouse needs to take to get the settlement of your estate started, and contact information for all the important officials and advisers he/she needs to connect with.

Below is a description of all the categories of documents your spouse needs with examples of specific documents in each category. After collecting them by category, put them in a separate, labeled file folder, binder, or envelope for each category, and store them in a place that protects them from fire and water — either a home safe or a safe deposit box at a bank.

❍ **Estate planning documents:** Your last will and testament, living will, all trust documents, power of attorney declarations, and any funeral instructions.

❍ **Personal documents:** Certificates of birth, marriage, and death of other key relatives; divorce and separation agreements; adoption papers; and military records. In addition, make copies of your driver's license, Social Security card, health insurance and/or Medicare card, and any organ donor cards.

❍ **Other legal documents:** Examples include pre- and post-nuptial agreements, corporation or partnership agreements, and leases.

❍ **Financial account statements and securities certificates:** Keep and periodically refresh all your bank, brokerage, mutual fund, and other investment account statements. Also include any stock, bond, or saving certificates.

❍ **Copies of your life insurance policies:** Make sure you include copies of the beneficiary designations and any recent statements of cash values.

❍ **Real estate documents:** These should include all deeds, mortgage, and title insurance documents and copies of your homeowners insurance policies for all properties you own.

❍ **Retirement plan documents:** Be sure to include all plan and account documents, beneficiary designations, and statements of all workplace retirement plans, IRAs, annuities, and pension plans you own and statements of your Social Security benefits.

❍ **Vehicle documents:** All documents related to the automobiles, motorcycles, scooters, boats, and airplanes you own. Include all titles, loan statements, and insurance policies for each vehicle.

❍ **Credit card and outstanding debt documents:** Keep and periodically refresh copies of your credit card, education, and any other outstanding personal loan balances.

❍ **Tax returns:** This file should always contain full copies of at least three years of federal, state, and local income tax returns. ❍❍❍

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Did You Know?

Employee participation in 401(k) plans decreases as the number of investment choices increases. A plan with 11 options had a 70% participation rate, while a plan with 56 options had a 61% participation rate. Studies by behaviorial scientists suggest humans tend not to make decisions when confronted with too many choices (Source: *AAII Journal*, July 2013.)

Approximately 6% of individuals in their 60s have children who live at home, while 30% support adult children (Source: *AARP The Magazine*, August/September 2013).

When asked what it takes to be considered wealthy, 50% of the respondents indicated no financial constraints on activities, 16% indicated surpassing a certain asset threshold, 10% indicated never having to work again, and 10% indicated ensuring a comfortable lifestyle for future generations (Source: *Wealth Management*, September 2013).

Approximately 63% of consumers spend more on technology bills than on utilities (Source: *Money Magazine*, August 2013).

Studies have repeatedly found that babies have little overall effect on parents' happiness. Parents raising children between the ages of three and 12 are happier than those raising infants and teenagers (Source: *Journal of Happiness Studies*, 2013). ❍❍❍