July 2014
Newsletter

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Summer seems to ***finally*** be upon us. The last few weeks have truly felt like the summer we have been waiting so long for. As we enjoy the summer, some of us might start thinking that it would be nice to be retired and enjoy all those outdoor activities that we wait to do on the weekends.

The final article in my last newsletter asked the question, "Are you ready to retire?" Many of you might emphatically say yes, but it really requires a lot more thought and reflection. As promised, this newsletter will touch on a number of retirement related issues.

The first article touches on some key facts about Social Security Benefits and the second article tries to answer the question about when you should start saving for your future.

The third article discusses potential risks in saving through your retirement plan at work and the following article explains the role of ERISA in protecting those employer plans.

The final article gives you some food for thought on how much money you should be saving for a comfortable retirement and factors that affect the amount you might need to comfortably retire.

I hope you enjoy these articles and find them helpful. As always, please email or call if you wish to set up an appointment or have any questions.

Eric

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15 Facts about Social Security
Saving for the Future: Start Now or Start Later?
Saving through Your Retirement Plan at Work? Don't Let These Five Risks Derail Your Progress
I've heard the term "ERISA fiduciary." What does it mean?

15 Facts about Social Security

It's easy to take Social Security for granted when retirement is years away, but with 94% of the U.S. workforce covered by Social Security,* it's likely that this program will play a role in your financial future, perhaps even sooner than you think. Here are some facts and statistics from the Social Security Administration that highlight why Social Security is important to so many people.

Retirement benefits

The Social Security program began in 1935 as a way to protect individuals against economic hardship. Over the years, Social Security has grown to include several other types of benefits, but Social Security is still synonymous with retirement.

Did you know that ...

- Approximately 70% of Social Security benefits are paid to retirees and their dependents**
- 73% of workers elect to receive reduced benefits early, before their full retirement age*
- The average monthly retirement benefit is $1,262**
- The maximum monthly retirement benefit payable in 2014 is $2,642 for someone retiring at full retirement age***

Survivors benefits

Upon your death, your surviving spouse, ex-spouse, children, or dependent parents may be eligible to receive benefits based on your earnings record. These benefits can be a valuable source of income when your family needs it the most.

Did you know that ...

- Survivors of deceased workers account for about 11% of Social Security benefits paid**
- About 96% of persons aged 20 to 49 have survivors protection for their children under 18 and for their surviving spouse who cares for those children****
- The average monthly family benefit is approximately $2,561 for a widowed mother or father and two children*

Disability benefits

Disability benefits from Social Security can help protect you and family members that rely on you for financial support in the event that due to sickness or injury you're unable to work and earn a living.

Did you know that ...

- Disabled workers and their dependents account for 19% of Social Security benefits paid**
- Approximately 90% of workers age 21 to 64 and their families are protected against long-term disability****
- The average age of a worker receiving disability benefits is 53.2**
- The average monthly benefit for a disabled worker is $1,130**

Other facts

Here are some other facts about Social Security that you may not know:

- 55% of adult Social Security beneficiaries are women**
- More than 3.4 million children under age 18 and students age 18 to 19 receive Social Security benefits**
- Social Security provides at least half of total retirement income for 74% of nonmarried beneficiaries age 65 or older**

All of the following source publications can be found on the Social Security Administration's website, www.ssa.gov.

**Annual Statistical Supplement, 2013, published February 2014*

***Fast Facts & Figures About Social Security, 2013, published July 2013*

****Fact Sheet: 2014 Social Security Changes, published October 2013*

*****Social Security Basic Facts, published July 2013*

Saving for the Future: Start Now or Start Later?

No matter how you save to reach a future goal, there is an advantage to putting your savings and earnings to work for you as early as possible.

All examples are hypothetical and are not guaranteed. Fees and taxes are not shown and could reduce the amount available.

****All investment involves risk, including the possible loss of principal.***

There are many ways to try to reach a future goal. You can save now, or you can save later (or perhaps do both). But there is an advantage to putting your savings and earnings to work for you as early as possible.

Compound earnings

If you save $1,000 now and invest it at an assumed 6% annual rate of return, in 1 year you would have $1,060, in 2 years about $1,124, and in 10 years about $1,791. Your earnings compound as you earn returns on your earnings. Your $1,000 initial investment increases through compounding to $1,791.*

Compounding at work

For example, let's say you start saving now. You save $5,000 at the beginning of each year in years 1 to 20 and put it into an investment that earns a hypothetical 6% annually. At the end of 30 years, you will have accumulated about $349,150.

Alternatively, let's say you start 10 years later. You save $5,000 at the beginning of each year in years 11 to 30. Once again, you earn an assumed 6% annually on that money. At the end of 30 years, you will have accumulated about $183,928.

In each of these examples, you've put aside a total of $100,000. However, by starting now, you accumulate about $165,222 more than if you start later, and all of that is from earnings. By starting now, rather than putting it off, you have put your money and the power of compound earnings to work for you.

Years	Start Now	Start Later
1 - 10	$5,000	
11 - 20	$5,000	$5,000
21 - 30		$5,000
Saved	$100,000	$100,000
Earnings	$249,150	$89,928
Total	$349,150	$183,928

Now, let's look at a different situation. Let's say you would like to start later but accumulate the same amount as if you had started putting money aside now. In this case, you would need to save more, about $8,954 at the beginning of each year in years 11 to 30, in order to accumulate $349,150 after 30 years.

In this example, you would need to save a total of about $179,085. That's $79,085 more than if you had started earlier, when compounding could have helped make up that difference. Compound earnings don't have as much time to work for you when you postpone getting started.

Years	Start Now	Start Later
1 - 10	$5,000	
11 - 20	$5,000	$8,954
21 - 30		$8,954
Saved	$100,000	$179,085
Earnings	$249,150	$170,065
Total	$349,150	$349,150

Strike a balance

Of course, you could accumulate even more if you do both. For example, if you set aside and invest $5,000 at the beginning of each year in years 1 to 30 and earn an assumed 6% annually on that money, at the end of 30 years, you will have accumulated about $419,008. This is substantially greater than the $183,928 accumulated if you invest $5,000 in years 11 to 30, while somewhat greater than the $349,150 accumulated if you invest $5,000 in years 1 to 20.

But maybe you can't afford to set aside $5,000 now. Could you manage $3,000 this year, increase that amount for next year by 3% to $3,090, and continue to increase the amount set aside by 3% each year? If that money earns an assumed 6% annually, you will have accumulated about $351,520 at the end of 30 years, slightly more than the $349,150 accumulated if you save $5,000 each year in years 1 to 20.

Compared to saving $5,000 a year for 30 years, you've contributed almost as much here ($142,726 compared to $150,000), but your earnings are substantially less ($208,794 compared to $269,008) because your largest contributions came in later years and had less time to work for you.

Year	Constant	Increasing
1	$5,000	$3,000
2	$5,000	$3,090
...		
29	$5,000	$6,864
30	$5,000	$7,070
Saved	$150,000	$142,726
Earnings	$269,008	$208,794
Total	$419,008	$351,520

Saving through Your Retirement Plan at Work? Don't Let These Five Risks Derail Your Progress

Keep in mind that no investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.

As a participant in your work-sponsored retirement savings plan, you've made a very important commitment to yourself and your family: to prepare for your future. Congratulations! Making that commitment is an important first step in your pursuit of a successful retirement. Now it's important to stay focused--and be aware of a few key risks that could derail your progress along the way.

1. Beginning with no end in mind

Setting out on a new journey without knowing your destination can be a welcome adventure, but when planning for retirement, it's generally best to know where you're going. According to the Employee Benefit Research Institute (EBRI), an independent research organization, workers who have calculated a savings goal tend to be more confident in their retirement prospects than those who have not. Unfortunately, EBRI also found that less than half of workers surveyed had actually crunched the numbers to determine their need (Source: 2013 Retirement Confidence Survey, March 2013).

Your savings goal will depend on a number of factors--your desired lifestyle, preretirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. By examining your personal situation both now and in the future, you can determine how much you may need to accumulate to provide the income you'll need during retirement.

Luckily, you don't have to do it alone. Your employer-sponsored plan likely offers tools to help you set a savings goal. In addition, a financial professional can help you further refine your target, breaking it down to answer the all-important question, "How much should I contribute each pay period?"

2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your contribution dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

3. ...Or aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situation. Although it's a generally accepted principle to invest at least some of your money in more aggressive investments to pursue your goals and help protect against inflation, the amount you invest should be based on a number of factors.

The best investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Again, your employer's plan likely offers tools to help you choose wisely. And a financial professional can also provide an objective, third-party view.

4. Giving in to temptation

Many retirement savings plans permit plan participants to borrow from their own accounts. If you need a sizable amount of cash quickly, this option may sound appealing at first; after all, you're typically borrowing from yourself and paying yourself back, usually with interest. However, consider these points:

- Any dollars you borrow will no longer be working for your future
- The amount of interest you'll be required to pay yourself could potentially be less than what you might earn should you leave the money untouched
- If you leave your job for whatever reason, any unpaid balance may be treated as a taxable distribution

For these reasons, it's best to carefully consider all of your options before choosing to borrow from your retirement savings plan.

5. Cashing out too soon

If you leave your current job or retire, you will need to make a decision about your retirement savings plan money. You may have several options, including leaving the money where it is, rolling it over into another employer-sponsored plan or an individual retirement account, or taking a cash distribution. Although receiving a potential windfall may sound appealing, you may want to think carefully before taking the cash. In addition to the fact that your retirement money will no longer be working for you, you will have to pay taxes on any pretax contributions, vested employer contributions, and earnings on both. And if you're under age 55, you will be subject to a 10% penalty tax as well. When it's all added up, the amount left in your pocket after Uncle Sam claims his share could be a lot less than you expected.

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I've heard the term "ERISA fiduciary." What does it mean?

The Employee Retirement Income Security Act (ERISA) was enacted in 1974 to protect employees who participate in retirement and certain other employee benefit plans. There was particular concern at the time that pension plan funds were being mismanaged, causing participants to lose benefits they had worked so hard to earn. ERISA protects the interests of plan participants and their beneficiaries by:

- Requiring the disclosure of financial and other plan information
- Establishing standards of conduct for plan fiduciaries, and
- Providing for appropriate remedies, sanctions, and access to the federal courts

It's the fiduciary provisions of ERISA that protect participants from the mismanagement and abuse of plan assets. The law requires that fiduciaries act prudently, solely in the interests of plan participants and beneficiaries, and for the exclusive purpose of providing benefits and paying reasonable expenses of administering the plan.

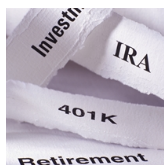
Fiduciaries must diversify plan investments to minimize the risk of large losses, unless it's clearly prudent not to do so. Fiduciaries must also avoid conflicts of interest. They cannot allow the plan to engage in certain transactions with the employer, service providers, or other fiduciaries ("parties in interest"). There are also specific rules against self-dealing.

Who is a plan fiduciary? Anyone who:

- Exercises any discretionary control over the plan or its assets
- Has any discretionary responsibility over the administration of the plan
- Provides investment advice for a fee or other compensation (direct or indirect)

Plan fiduciaries include, for example, discretionary plan trustees, plan administrators, investment managers and advisors, and members of a plan's investment committee.

Fiduciaries must take their responsibilities seriously. If they fail to comply with ERISA's requirements, they may be personally liable for any losses incurred by the plan. Criminal liability may also be possible.



How much money should I save for retirement?

The obvious answer is, as much as you can. You'll probably need to build a fund that you can draw on for much of your retirement income. This may be possible to do if you start early and make smart choices.

Contribute as much as you can to tax-advantaged savings vehicles (e.g., 401(k)s, IRAs, annuities). Make sure to contribute as much as necessary to get any employer matching contribution--it's essentially free money. Then round out your retirement portfolio with other taxable investments (e.g., stocks, bonds, mutual funds*). As you're planning and saving, keep in mind that you may have 30 or more years of retirement to fund. So, you may need an even bigger nest egg than you think.

***Note:** All investing involves risk, including the possible loss of principal. Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.*

Your particular circumstances will determine how much money you should save for retirement. Maybe you have a pension plan, or your Social Security benefits will be large enough to tide you over. If so, you may not need to save as much as other people. But other personal factors will enter the picture, too. If you plan to retire early (e.g., age 50 or 55), you'll have even more retirement years to fund and may need more retirement assets than someone who plans to work until age 65 or 70. Conversely, you may need fewer assets if you plan on working part-time during retirement.

Your projected expenses during retirement will also help determine how much money you'll need and how much you need to save to get there. Certain costs (e.g., food, utilities, insurance) will be shared by almost all retirees. But you may still be saddled with retirement expenses that many retirees no longer have (e.g., mortgage payments or a child's tuition).

Expenses will also depend on the type of retirement lifestyle you want. How many nights a week will you dine out? How much traveling will you do? These kinds of questions will give you a better idea of how much money you'll be spending once you retire. In general, the greater your anticipated retirement expenses, the more you need to save each year to meet those expenses.

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