HELPING YOU UNDERSTAND THE COMPLEXITIES OF WEALTH MANAGEMENT AND PROVIDING SOLUTIONS AS UNIQUE AS YOUR GOALS

WEALTH MANAGEMENT NEWSLETTER

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In this issue:

HAVE YOU MADE ANY OF THESE FINANCIAL MISTAKES?

As people move through different stages of life, there are new financial opportunities—and potential pitfalls—around every corner. Have you made any of these mistakes?

Your 50s and 60s

1. *Raiding your home equity or retirement funds*. It goes without saying that doing so will prolong your debt and reduce your nest egg.
2. *Not quantifying your expected retirement income*. As you near retirement, you should know how much money you (and your spouse, if applicable) can expect from three sources:
   - Your retirement accounts such as 401(k) plans, 403(b) plans and IRAs
   - Pension income from your employer, if any
   - Social Security (at age 62, at your full retirement age and at age 70)
3. *Co-signing loans for adult children*. Co-signing means you are 100 percent on the hook if your child cannot pay—a less-than-ideal situation as you are getting ready to retire.
4. *Living an unhealthy lifestyle*. Take steps now to improve your diet and fitness level. Not only will you feel better today, but you may also reduce your health care costs in the future.

Your 40s

1. *Trying to keep up with the Joneses*. Appearances can be deceptive. The nice lifestyle your friends, neighbors or colleagues enjoy might look nice on the outside, but behind the scenes, there may be a lot of debt supporting that lifestyle. Do not spend money you do not have trying to keep up with others.

2. *Funding college over retirement*. In your 40s, saving for your children's college costs at the expense of your own retirement may be a mistake. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Then sit down with your teenager and have a frank discussion about college options that will not break the bank—for either of you.
3. *Not having a will or an advance medical directive*. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Your 30s

1. *Being house poor*. Whether you are buying your first home or trading up, think twice about buying a house you cannot afford, even if the bank says you can. Build in some wiggle room for a possible dip in household income that could result from leaving the workforce to raise a family, a job change or a layoff.
2. *Not saving for retirement*. Maybe your 20s passed you by in a bit of a blur and retirement was not even on your radar. Now that you are in your 30s, however, it is essential to start saving for retirement. Start now, and you still have 30 years or more to save. Wait much longer, and it can be very hard to catch up.
3. *Not protecting yourself with life and disability insurance*. Life is unpredictable. Consider what would happen if one day you were unable to work and earn a paycheck. Life and disability insurance can help protect you and your family. Though the cost and availability of life insurance will depend on several factors, including your health, generally the younger you are when you buy life insurance, the lower your premiums will be.

Your 20s

1. *Living beyond your means*. It is tempting to splurge on gadgets, entertainment and travel, but if you cannot pay for most of your wants up front, then you need to rein in your lifestyle, especially if you have student loans to repay.
2. *Not paying yourself first*. Save a portion of every paycheck first and then spend what is left over, not the other way around. Moreover, why not start saving for retirement, too? Earmark a portion of your annual pay now for retirement and your 67-year-old self will thank you.
3. *Being financially illiterate*. Learn as much as you can about saving, budgeting and investing now, and you could benefit from it for the rest of your life.

ON THE ROAD TO RETIREMENT, BEWARE OF THESE FIVE RISKS

On your journey to retirement, you will likely face many risks that have the potential to throw you off course. Following are five common challenges retirement investors face. Take some time now to review and understand them before your journey takes an unplanned detour.

1. Traveling aimlessly

Setting out on an adventure without a definitive destination can be exciting but probably not when it comes to saving for retirement. As you begin your retirement strategy, one of the first steps you will need to take is identifying a goal. While some people prefer to establish one big lump-sum accumulation amount—for example, $1 million or more—others find that type of number daunting. They might focus on how much their savings will need to generate each month during retirement—for example, the equivalent of $5,000 in today's dollars. ("In today's dollars" refers to the fact that inflation will likely increase your future income needs. These examples are for illustrative purposes only. They are not meant as investment advice.)

Regardless of the approach you follow, setting a goal may help you better focus your investment strategy. In order to set a realistic target, you will need to consider a number of factors—your desired lifestyle, pre-retirement income, health, Social Security, benefits any traditional pension benefits you or your spouse may be entitled to and others. Examining your personal situation both now and in the future can help you determine how much you may need to accumulate.

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 investment dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

3. ...Or too aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situations. Although you might consider investing at least some of your retirement portfolio in more aggressive investments to potentially outpace inflation, the amount you invest in such higher-risk vehicles should be based on a number of factors. Appropriate 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. Would you be able to sleep at night if your portfolio lost 10 percent, 15 percent or even 20 percent of its overall value over a short time period? These are the types of scenarios you must consider when choosing an investment mix.

4. Giving in to temptation

On the road to retirement, you will likely face many financial challenges as well—the unplanned need for a new car, an unexpected home repair or an unforeseen medical expense are just some examples.

During these trying times, your retirement savings may loom as a potential source of emergency funding. However, think twice before tapping your retirement savings assets, particularly if your money is in an employer-sponsored retirement plan or an IRA. Consider that:

- Any dollars you remove from your portfolio will no longer be working for your future.
- You may have to pay regular income taxes on distribution amounts that represent tax-deferred investment dollars and earnings.
- If you are under age 59 ½, you may have to pay an additional penalty tax of 10—25 percent (depending on the type of plan and other factors; some exceptions apply).

For these reasons, it is best to carefully consider all of your options before using money earmarked for retirement.

5. Prioritizing college saving over retirement

Many well-meaning parents may feel that saving for their children's college education should be a higher priority than saving for their own retirement. "We can continue working, if needed," or "our home will fund our retirement," they may think. However, these can be very risky trains of thought. While no parent wants his or her children to take on a heavy debt burden to pay for education, loans are a common and realistic college-funding option—not so for retirement. If saving for both college and retirement seems impossible, consider speaking with a financial professional who can help you explore the variety of tools and options.

THE FINANCIAL IMPLICATIONS OF A CHRONIC ILLNESS

When you live with a chronic illness, you need to confront both the day-to-day and long-term financial implications of that illness. Talking openly about your health can be hard, but sharing your questions and challenges with those who can help you is extremely important, because recommendations can be better tailored to your needs. Every person with a chronic illness has unique issues, but here is a look at some topics with which you might need help.

Money management

A budget is a useful tool for anyone, but it is especially valuable when you have a chronic illness, because it will serve as a foundation when planning for the future. Both your income and expenses may change if you are unable to work or your medical costs rise, and you may need to account for unique expenses related to your condition. Clearly seeing your overall financial picture can help you feel more in control.

Keeping good records is also important. For example, you may want to set up a system to help you track medical expenses and insurance claims. You may also want to prepare a list of instructions for others, such as a trusted friend or relative, that includes where to find important household and financial information in an emergency.

Another step you might want to take is simplifying your finances. For example, if you have numerous financial accounts, you could consolidate them to make it easier and quicker for you or a trusted advisor to manage. Setting up automatic bill payments or online banking can also help you keep your budget on track and ensure that you pay all bills on time.

Insurance

Reviewing your insurance coverage is essential. Read your health insurance policy and make sure you understand your copayments, deductibles and the details of your coverage. In addition, find out if you have any disability coverage and what terms and conditions apply.

You might assume that you cannot purchase additional life insurance, but this is not necessarily the case. It may depend on your condition or the type of life insurance you are seeking. Some policies will not require a medical exam or will offer guaranteed coverage. If you already have life insurance, find out if your policy includes accelerated (living) benefits. You will also want to review beneficiary designations. If you are married, make sure that your spouse has adequate insurance coverage, too.

Investing

Having a chronic illness can affect your investment strategy. Your income, cash-flow requirements and tolerance for risk may change, and your investment plan may need to be adjusted to account for both your short-term and long-term needs. You may need to keep more funds in a liquid account now (for example, to help meet day-to-day living expenses or use for home modifications, if necessary), and you will want to thoroughly evaluate your long-term needs before making investment decisions. The course of your illness may be unpredictable, so your investment plan should remain flexible and be reviewed periodically.

Estate planning

You might think of estate planning only as something you do to get your affairs in order in the event of death, but estate planning tools can also help you manage your finances right now.

For example, a durable power of attorney can help protect your property in the event you become unable to handle financial matters. A durable power of attorney allows you to authorize someone else to act on your behalf, so he or she can do things like pay everyday expenses, collect benefits, watch over your investments and file taxes.

A living trust (also known as a revocable or inter vivos trust) is a separate legal entity you create to own property, such as your home or investments. The trust is called a living trust because it is meant to function while you are alive. You control the property in the trust and, whenever you wish, can change the trust terms, transfer property in and out of the trust or end the trust altogether. You name a co-trustee, such as a financial institution or a loved one, who can manage the assets if you are unable to do so. There are costs and ongoing expenses associated with the creation and maintenance of trusts.

You may also want to have advance medical directives in place to let others know what medical treatment you would want, or that allow someone to make medical decisions for you, in the event you cannot express your wishes yourself. Depending on what is allowed by your state, these directives may include a living will, a durable power of attorney for health care and a do not resuscitate order.

Review your plan regularly

As your health changes, your needs will change too. Make sure to regularly review and update your financial plan.

WHAT IS THE FEDERAL FUNDS RATE?

The federal funds rate is the interest rate at which banks lend funds to each other from their deposits at the Federal Reserve (the Fed), usually overnight, in order to meet federally mandated reserve requirements. If a bank is unable to meet its reserve requirements at the end of the day, it borrows money from a bank with extra reserves. The federal funds rate is what banks charge each other for overnight loans. This rate is referred to as the federal funds effective rate and is negotiated between borrowing and lending banks.

The Federal Open Market Committee sets a target for the federal funds rate. The Fed does not directly control consumer savings or credit rates directly; it cannot require that banks use the federal funds rate for loans. Instead, the Fed lowers the federal funds rate by buying government-backed securities (usually U.S. Treasury securities from banks, which adds to the banks' reserves. Having excess reserves, banks will lower their lending rates for overnight loans in order to make some interest on the excess reserves. To raise rates, the Fed sells securities to banks, decreasing the banks' reserves. If enough banks need to borrow to meet overnight reserve requirements, banks with extra reserves will raise their lending rates.

The federal funds rate serves as a benchmark for many short-term rates, such as savings accounts, money market accounts and short-term bonds. Banks also base the prime rate on the federal funds rate. Banks often use the prime rate as the basis for interest rates on deposits, bank loans, credit cards and mortgages.

The Federal Deposit Insurance Corporation (FDIC) insures certificates of deposits and bank savings accounts, *which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. U.S. Treasury securities are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest.*

Source: Federal Reserve, 2018

CAN THE FEDERAL FUNDS RATE AFFECT THE ECONOMY?

The Federal Open Market Committee (FOMC) is the policymaking branch of the Federal Reserve (the Fed). One of its primary responsibilities is setting the federal funds target rate. The FOMC meets eight times per year, after which it announces any changes to the target rate. The Fed, through the FOMC, uses the federal funds rate as a means to influence economic growth.

If interest rates are low, the presumption is that consumers can borrow more and, consequently, spend more. For instance, lower interest rates on car loans, home mortgages and credit cards make them more accessible to consumers. Lower interest rates often weaken the value of the dollar compared to other currencies. A weaker dollar means some foreign goods are costlier, so consumers will tend to buy American-made goods. An increased demand for goods and services often increases employment and wages. All of which should stimulate the economy. This is essentially the course the FOMC took following the 2008 financial crisis in an attempt to spur the economy.

However, if money is too plentiful, demand for goods may exceed supply, which can lead to increasing prices. As prices increase (inflation), demand for goods decreases, slowing overall economic growth. When the economy recedes, the need for labor decreases, unemployment grows and wage growth slows. To counteract rising inflation, the Fed raises the target rate. When interest rates on loans and mortgages move higher, money becomes more costly to borrow. Since loans are harder to get and more expensive, consumers and businesses are less likely to borrow, which slows economic growth and reels in inflation.

The Fed monitors many economic reports that track inflationary trends and economic growth. The Fed's preferred measure of inflation is the Personal Consumption Expenditures Price Index, which is produced by the Department of Commerce. To forecast economic growth, the Fed looks at changes in gross domestic product and the unemployment rate, along with several other economic indicators, such as durable goods orders, housing sales and business fixed investment.

Source: Federal Reserve, 2018

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