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Pump Up Your Retirement Savings

Don't just give up on your retirement goals if you find you've entered middle age with little to no retirement savings. Here are some strategies to consider in increase your savings:

✔ **Reanalyze your retirement goals.** First, thoroughly analyze your situation, calculating how much you need for retirement, what income sources will be available, how much you have saved, and how much you'll need to save annually to reach your goals. If you can't save that amount, it may be time to change your goals. Consider postponing retirement for a few years so you have more time to accumulate savings as well as delay withdrawals from those savings. Think about working after retirement on at least a part-time basis. Look at lowering your expectations, possibly traveling less or moving to a less-expensive city or smaller home.

✔ **Contribute the maximum to your 401(k) plan.** Your contributions, up to a maximum of $18,000 in 2017, are deducted from your current-year gross income. If you are age 50 or older, your plan may allow an additional $6,000 catch-up contribution, bringing your maximum annual contribution to $24,000. Find out if your employer offers a Roth 401(k) option. Even though you won't get a current-year tax deduction for your contributions, qualified withdrawals can be taken free of income taxes. If your employer matches contributions, you are essentially losing money when you don't contribute enough to receive the maximum matching contribution.

✔ **Look into individual retirement accounts (IRAs).** In 2017, you can contribute a maximum of $5,500 to an IRA, plus an additional $1,000 catch-up contribution if you are age 50 or older. Even if you participate in a company-sponsored retirement plan, you can

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Sharing an Inheritance

Married individuals who receive a large inheritance face a tough decision — should you share the inheritance with your spouse or hold the assets separately? Legally, you aren't required to share the inheritance, even in community property states where almost all other income must be split equally. Even if all other marital assets are owned jointly, you might want to consider keeping an inheritance separate for a couple of reasons:

✔ Should you get divorced, you probably wouldn't have to split a separately held inheritance with your spouse.

✔ When you die, you control who receives the inheritance. If the inheritance is owned jointly, it goes to your spouse.

While there may be sound financial reasons for keeping the inheritance separate, those reasons may be difficult to explain to a spouse. Rather than remaining evasive, discuss the inheritance and your concerns openly with your spouse. Even if you decide to keep the inheritance separate, that doesn't mean you can't share some of the assets for common goals. ❍❍❍

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Pump Up

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make contributions to an IRA, provided your adjusted gross income does not exceed certain limits.

✔ **Reduce your preretirement expenses.** Typically, you'll want a retirement lifestyle similar to your lifestyle before retirement. Become a big saver now and you enjoy two advantages. First, you save significant sums for your retirement. Second, you're living on much less than you're earning, so you'll need less for retirement. For instance, if you live on 100% of your income, you'll have nothing left to save toward retirement. At retirement, you'll probably need close to 100% of your income to continue your current lifestyle. With saving 10% of your income, you're living on 90%. At retirement, you'll probably be able to maintain your standard of living with 90% of your current income.

✔ **Move to a smaller home.** As part of your efforts to reduce your preretirement lifestyle, consider selling your home and moving to a smaller one, especially if you have significant equity in your home. If you've lived in your home for at least two of the previous five years, you can exclude $250,000 of gains if you are a single taxpayer and $500,000 of gains if you are married filing jointly. At a minimum, this strategy will reduce your living expenses so you can save more. If you have significant equity in your home, you may be able to use some of the proceeds for savings.

✔ **Substantially increase your savings as you approach retirement.** Typically, your last years of employment are your peak earning years. Instead of increasing your lifestyle as your pay increases, save all pay raises. Anytime you pay off a major bill, such as an auto loan or your child's college tuition, take the money and put it in your retirement savings.

✔ **Restructure your debt.** Check whether refinancing will reduce your monthly mortgage payment. Find less-costly options for consumer debts including credit cards with high interest rates. Systematically pay down your debts, and most important — don't incur any new debt. If you can't pay cash for something, don't buy it.

✔ **Stay committed to your goals.** At this age, it's imperative to maintain your commitment to saving. Please call if you'd like to discuss this in more detail. ❍❍❍

Tactical Asset Allocation and Market Timing

Your investment strategy should include a long-term plan for dividing your portfolio among the major asset classes: stocks, bonds, and cash. The term for this is strategic asset allocation, and it entails an annual review to bring your portfolio into alignment with your strategy. Over time, some asset classes perform better or worse than others, causing your actual holdings in each class to be larger and/or smaller than your strategy calls for.

You can resolve this discrepancy by selling off some assets that grew to be more than the plan calls for and use the proceeds to buy assets that became a smaller portion than they're supposed to be. In this way, you maintain the risk level that's needed to meet your objectives.

But there's another way to go about managing your portfolio that takes a different approach. It's called *tactical* asset allocation and involves making changes in your portfolio to take advantage of emerging up trends in one asset class and avoiding the damage a new down trend could cause in another asset class. If you're successful, you can achieve higher returns than by sticking with your strategic allocation plan.

Notice, however, the word "if." It's extremely difficult even for professional money managers to succeed in tactical asset allocation, and the consequences of being off on your timing can be devastating.

As most financial advisors tell their clients, the best portfolio returns are often achieved not by timing the market, but by how much time your money is in the market. Even though market up trends can last for months if not years, studies show that the biggest returns come in spurts of short periods of time. If you miss these spurts, you could be missing the bulk of the benefits of any upturn.

The table below illustrates the benefits of remaining in the stock market and risks of being out of it, even for relatively short periods of time. It shows returns from a portfolio entirely invested in the Standard & Poor's 500 Index for all 5,038 trading days from the first day of 1997 through the end of 2016, compared to the returns that an investor would have if he/she had been out of the market for its 5, 10, 20, and 40 best days. The differences in returns are striking.

Average Annual Total Return: 1997–2016

Invested…	
All 5,038 days	7.68%
Minus 5 best days	5.49%
Minus 10 best days	4.00%
Minus 20 best days	1.57%
Minus 40 best days	-2.42%

Source: Index Fund Advisors, 2017

What's the main message here? Your best strategy is to invest your money in a diversified portfolio, reallocating periodically to maintain your strategic balance. Need some help with your strategic asset allocation? Please call. ❍❍❍

How to Protect Against Medical Identity Theft

While we've become accustomed to hearing about hacking of personal data at large retailers, the medical industry is fast becoming the industry at the highest risk of data hacking — 91% of healthcare organizations experienced a data breach in the past two years (Source: *Forbes*, May 29, 2015).

The consequences of these data breaches can range from financial to medical fraud. Medical records typically contain payment information such as credit card numbers, but also carry data like Social Security numbers and insurance information, which can enable a criminal to obtain medical services and payments under another's identity.

There are several reasons the healthcare industry has become a new target for hackers. First, the American Recovery and Reinvestment Act of 2009 and the Affordable Care Act in 2010 required health care organizations to digitize their health information. Second, because most information was previously held in hard copy form, the healthcare industry has not been as savvy about data protection. These two things opened up a whole new world for cybercriminals. Finally, healthcare information commands a much higher price on the black market. An FBI report shows that health insurance information has a $60 to $70 price tag compared to $1 for a Social Security number (Source: *Forbes*, May 29, 2015).

Cybercriminals profit from healthcare data by getting healthcare for themselves or selling it to someone who is uninsured and in need of medical care. But the big profit comes from private health insurance, Medicare, and Medicaid fraud. For example, for every Medicare or Medicaid number stolen, individuals can bill the government for services and equipment as well as prescription medicines.

How to Protect Your Information

While the healthcare industry is making strides in data protection, you should be diligent about protecting your medical information. Following are some steps you can take:

✔ Ask your physician for a copy of your medical records so you can review them for accuracy. You'll want to make sure your medical history, prescribed treatments, allergies, blood type, etc., are accurate, so that if you are in an emergency situation, you're not receiving treatment that could be detrimental.

✔ Take time to review the Explanation of Benefits you receive from your insurance company. This is the best document to review to uncover medical fraud.

✔ If your physician or a hospital is asking you to provide your Social Security number, find out why they need it and make sure it is absolutely necessary.

✔ Monitor your credit report on a regular basis to ensure that you don't see activity that is the result of stolen payment information.

✔ Consider a medical identity monitoring service, which will identify all healthcare transactions on your account. ❍❍❍

Keep Track of Retirement Accounts

Most of us change jobs at least twice before retiring, leaving a trail of retirement nest eggs behind us. Now that defined-contribution plans are much more prevalent than defined-benefit plans, we have more responsibility for financing our retirement. So it's important to manage our retirement accounts actively. But how can you do that if your accounts aren't even located in one place? Here are a couple of tips:

Organize your records. As long as you continue to hold your account in a former employer's plan, you should receive statements. Keep them all in a file — or even better, enter them all in a spreadsheet, tracking the combined balances and amounts in each type of investment.

Consolidate your accounts. It's much easier to manage your assets if they're all in one place. Fill out the paperwork necessary for rolling them over into one account. That single consolidation account could be the plan you are currently contributing to if it permits rollover contributions. You can also open a rollover individual retirement account (IRA) and have the funds from your other accounts directly transferred there.

If you've lost track of accounts. If you've lost track of one or more of your accounts with a former employer, contact your old employer and ask them to confirm that you participated in the plan and the steps you need to take to get a current statement of your account. Or find an old statement and look for a contact phone number or address. As long as there are assets in the account, the financial institution can probably still account for them. ❍❍❍

Our Recommended Reading List for 2018

Second-Act Careers by Nancy Collamer, MS

Frequently, clients suggest that they plan on working part-time once they retire. Skeptical, we ask "doing what?" Some people have a good answer, such as consulting in their current industry. For those who don't have a clear answer, we suggest they reconsider. The cashier job at Walmart or flipping burgers at McDonalds, we reason, might not be worth minimum wage.

From now on, however, we have a resource when this discussion comes up — the book *Second-Act Careers* by Nancy Collamer. Collamer, a career coach, suggests part-time work that we never thought of, like food blogging, pet photography, nutrition coaching, and tour guiding. She even maintains a list on her website, *mylifestylecareer.com*, of more than 100 second-act career resources.

Both the book and the website list resources on how to breed dogs, write a novel, or work in a national park. The focus is on flexible, part-time options.

Younger Next Year by Chris Crowley and Henry S. Lodge, M.D.

The subtitle for this book is descriptive and accurate — *Live Strong, Fit, and Sexy—Until You're 80 and Beyond*. If you are interested in following the advice of this book, be prepared to change. Some of the suggestions, like drinking more water, are fairly easy. Some of them, like exercising "A lot" and limiting drink consumption to no more than one or rarely two glasses a day, may not be so easy.

But the goal is one that almost all retirees can aspire to — to be able to do all of the things you could always do, until 80 and beyond.

How Your Unconscious Mind Rules Your Behavior by Leonard Mlodinow

The subtitle to this book made us laugh and buy the book. In letters only perceptible if you tilt the book into the light, the cover says *Pssst…Hey There. Yes: You, Sexy. Buy This Book Now. You Know You Want It.* This recent best seller, like the first two, might also change your life. Through numerous studies, the author shows the shocking things that we do, some good and some bad, without conscious thought.

For example, in a study covering thousands of voters for the U.S. Senate and House of Representatives, they ask people to merely look at a picture (and they had to exclude the picture if they recognized the face) and suggest whether that person was a good leader.

That is all the information they were allowed to have. Shockingly, more than 2/3 of those people were elected. Think about that.

Misbehaving by Richard Thaler

Earlier this year, Thaler received the Noble Prize, mostly for his work in his previous book *Nudge*. This book is better than *Nudge* and more like Daniel Kahneman's book *Thinking Fast and Slow*, which we think was one of the most influential investment books ever written. Thaler was an underachiever in his early years and quotes Kahneman, also a Nobel Prize winner, in the preface. "Oh, the best thing about Thaler, what really makes him special, is that he is lazy." Apparently, Kahneman claimed, "I only work on questions that are intriguing enough to overcome this default tendency of avoiding work."

This book also provides insights that are helpful to investors. In one chapter, Thaler reports on a study that showed investors who look at their statements more often typically do worse. That is, the emotions that occur as a result of frequently looking at the investments are counterproductive to making good investment decisions. Interesting!

A Rabble of Dead Money by Charles R. Morris

This book about the Great Depression from 1929 to 1939, will change your mind about what caused the depression. The stock market crash of 1929. The Dust Bowl. Bank failures. The Smoot-Hawley Tariff. These are the most mentioned causes of the Great Depression, but Morris argues that the market actually recovered fairly quickly from the 1929 crash and, therefore, was not the cause. Further, he argues, the dust bowl and bank failures were caused ***by*** the Depression. A major cause of the dust bowl, he argues, was desperate farming techniques by poor farmers. The bank failures were a reaction ***to*** the economic depression. Only the Smoot-Hawley Tariff was a significant contributor to the Depression, but even that, according to Morris, was not the primary cause of the Depression.

That cause was the weakened and acrimonious state of Europe as a result of World War I. At that time, Europe was the major economy, not the United States. The United States reacted to Europe, not the other way around as it is today. At the end of the first World War, economic trading picked up somewhat, but slowed during the '20s as a result of lingering animosities. The lands of France and Belgium were devastated during the war, but Germany was left untouched. When the Germans defaulted on reparations, trading between Germany and France, two of the three leading economies (Britain being the third), slowed drastically.

It was the economic slowdown in Europe that caused the worldwide depression, according to Morris.

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