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Ways to Save for Retirement

How can you save more in a time when every dollar seems to buy a little less? Consider the suggestions below:

Get a budget and reduce spending: If you're looking to save more, the first place to look is your current budget. Cutting spending where possible will free up more money to set aside for the future. While some of your expenses are fixed — most of us need to spend money on housing, food, and transportation, for instance — others are flexible. Spending a little less on dining out, canceling subscription services, or choosing a cheaper cell phone plan could free up $50 or $100 in your monthly budget to dedicate to retirement. That may not sound like a lot, but it's a good place to start.

Get your match: If you're lucky enough to work for a company that offers a 401(k) plan and matches employee contributions, make sure you take advantage of it. Not contributing enough to get your match is essentially turning down free money.

Max out your 401(k) plans: In 2019, most people are allowed to contribute up to $19,000 a year to their 401(k) plan. Not everyone can afford to save up to the max, but whatever your income, you should contribute as much to tax-advantaged retirement accounts as you're able.

Contribute to an IRA: If you can't contribute to a retirement plan at work or you want to save even more for retirement, consider setting up an IRA. Assuming you meet certain requirements, you can save up to $6,000 a year in these accounts.

Contribute to a health savings account (HSA): For people who are really intent on maximizing their retirement savings, HSAs can be an option. HSAs are primarily

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Your 401(k) Plan Contribution Amount

Before deciding how much to contribute to your 401(k) plan, find out three key figures:

What is the maximum percentage of your pay that can be contributed? The maximum legal contribution limit in 2019 is $19,000 plus an additional $6,000 catch-up contribution for participants age 50 and over, if permitted by the plan. However, most employers set limits in terms of a percentage of your pay to comply with government regulations. This limit ensures the plan does not discriminate in favor of highly-compensated employees.

How much of your contribution is matched by your employer? Employers are not required to provide matching contributions, but many do. A common match is 50 cents for every dollar contributed, but other variations also exist.

Up to what percentage of your pay does your employer match? Most plans only match contributions up to a certain percentage of your pay. For instance, the plan may only match contributions up to a maximum of 6% of your pay. ❍❍❍

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Ways to Save

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intended as a way for people who have high-deductible health plans to save for medical expenses. But any money not used for healthcare costs now can be used to pay for healthcare in retirement.

Make catch-up contributions: Once you reach age 50, you're eligible to make catch-up contributions to 401(k) plans and IRAs. You can contribute an additional $6,000 a year to your 401(k) plan and an extra $1,000 a year to your IRA. If you consistently make those contributions over the next 15 years (assuming you retire at 65), you'll have an additional $105,000 for retirement — and that's without considering any growth in your investments.

Save in taxable accounts: Most people focus on saving for retirement in various tax-advantaged accounts, like a 401(k) plan. But if you can't save for retirement that way, or you want to save even more, consider saving in more traditional ways. You can put money in a well-diversified investment account, bonds, or other savings vehicles. One advantage of putting some of your money in non-retirement accounts is that you won't have to worry about mandatory withdrawals when you reach age 70½.

Take enough risk: Saving as much as possible is key to having a healthy retirement portfolio. But squirreling away dollars alone isn't enough. To really make the most of your money, you need to invest it. That means investing more in stocks when you're younger and gradually dialing down risk as you get closer to retirement. Being smart about risk is essential to meeting your retirement savings goals.

Don't take early withdrawals: When times get tough, people often turn to the money they've set aside for retirement to close the gap. But if it's at all possible to avoid touching that cash, you should. Not only will you fall behind on your savings — creating a gap that is nearly impossible to make up — you'll also get hit with penalties. Unless you need that money for a true emergency, like you're facing the prospect of losing your home or a major health crisis, leave it alone. You'll be glad you did when the time comes to stop working.

Please call if you'd like to discuss saving for retirement in more detail. ❍❍❍

Converting to a Roth IRA

In simplest terms, a Roth conversion involves changing the tax treatment of your retirement savings. Generally, contributions to a traditional IRA are tax deductible in the year you make them (contributions may be allowed but not deductible if your income exceeds certain limits). The money you contribute grows over time; when you start making withdrawals in retirement, you pay taxes on the money you take out.

Contributions to Roth IRAs, on the other hand, aren't tax deductible in the year they are made. But earnings grow ta -free; when you withdraw the money, you don't pay any federal income taxes. A Roth IRA conversion involves taking funds from a traditional IRA, paying tax on any previously untaxed funds, and then putting the funds in a Roth IRA so that you can have tax-free income in retirement.

Pros of Roth Conversions

For anyone who suspects they may be in a higher tax bracket in retirement, converting to a Roth IRA may be appealing. Roth IRA conversions may also be a smart move if the value of your IRA has recently dropped because you'll pay less tax on the conversion, or if you have other deductions or credits you can claim to help offset the tax on the converted amount. If you're young and in a relatively low tax bracket, Roth IRAs are also advantageous since you won't get much of a tax break from current deductible contributions and your taxes are likely to be higher in the future.

If your other assets will be sufficient for your retirement income needs and you don't anticipate a need to make withdrawals from your Roth IRA during your lifetime, you may want to use it as a way to leave tax-free income to your heirs. Since there are no required minimum distributions from a Roth IRA, the money can grow undisturbed during your lifetime, plus the distributions to your heirs should be free of income tax.

Cons of Roth Conversions

If the steep tax bill for converting makes you squirm, a Roth IRA conversion may not be for you. After all, if you're in the 32% tax bracket and convert a $100,000 IRA, you'll owe $32,000 in taxes. Plus, most experts recommend using cash outside the plan to pay the tax on conversion to avoid depleting your retirement savings. Paying the taxes with cash is especially critical if you are under age 59½, because if you use money from your IRA to pay the tax, you'll owe a 10% penalty on the amount that's not rolled over into the Roth IRA. Likewise, if you plan on spending the Roth IRA funds early on in retirement (within five years of the conversion), you may not have enough time for earnings in the Roth IRA to make up for taxes paid on the conversion.

Roth IRA conversions are complicated. If you're considering converting, don't attempt to go it alone. Please call if you'd like to discuss this in more detail. ❍❍❍

Does Your Insurance Need Adjusting?

We love the convenience of automation. We appreciate that after we've set something up once, we don't have to think about it again. But because our lives are constantly changing, staying on auto-pilot when it comes to our insurance means our coverage may not be up-to-date with our actual needs. This is why you should review your insurance every year or after major life events, like marriage, divorce, the birth of a child, a new job, or the death of a spouse or dependent. All of these could affect what insurance is best for your particular circumstances.

Marriage and Divorce

These life events may affect multiple types of insurance:

✔ **Life** — A new marriage may mean you will want to purchase a life insurance policy to ensure your spouse is looked after if you pass away. A recent divorce may prompt you to remove your former spouse from your insurance policies and perhaps name a new beneficiary.

✔ **Health** — Upon getting married, you generally have 30 days after the marriage to add your spouse to your employer-sponsored health insurance or you may have to wait until the next annual open enrollment period. If you've divorced, you will need to remove your former spouse from your health insurance plan.

✔ **Homeowners** — If you are marrying someone who has significant property and plan to combine households, you will need to increase your personal property insurance to cover and protect all of your newly combined assets.

✔ **Auto** — While you certainly do not have to change policies once you've married, you may be missing out on available discounts and savings associated with having multiple policies with the same company.

Spousal Death or Disability

All of your insurance needs may require reevaluation in the case of spousal disability. If your spouse has passed away, you will need to name new beneficiaries on your life insurance policies.

Birth of a Child

✔ **Life** – To make sure your child will be provided for in the event of your death, you will need to reassess your life insurance. You may want to consider education expenses in addition to the day-to-day cost of raising a child.

✔ **Health** – Similar to adding a spouse, you will have roughly 30 days after birth to add your child to your employer-sponsored health insurance plan.

✔ **Disability** – Another child means you will have another dependent, so you may want to make sure your disability insurance — long or short term — will be sufficient to provide for all of your dependents.

New Drivers in Household

Teenage or new drivers may relieve some of the demands on your time, but they also carry a heavier financial burden in regard to auto insurance. To look for savings, check to see if your insurance company offers discounts based on the new driver's specific training or good grades in school. If your child goes away to college and does not take the car, inform your insurance company and enjoy the corresponding lowered rate.

Job or Income Change

✔ **Life** — If your lifestyle has significantly changed due to a job change or retirement, you may want to adjust your life insurance policy and review your long-term financial needs.

✔ **Auto** — If your new job or retirement lifestyle does not rely as heavily on your car to commute daily, you may qualify for lower auto insurance premiums.

New Investments and Assets

Purchasing or selling a home does not necessarily mean you will have to change homeowners insurance policies, as they typically cover new purchases automatically. However, new assets and purchases may exceed the value limits of your current policy or not even be covered at all. Review your personal property inventory and make sure you are still covered by the personal property protections in your homeowners insurance policy.

Extensive Home Improvement

Review your homeowners insurance on a regular basis and when you add significant value to your home. Your home value will fluctuate with the market and you will need to make sure your policy limits will still allow for the full coverage in the cost of rebuilding a home if yours is destroyed.

It's a good idea to reassess your insurance needs at least once a year. Please call if you'd like to discuss in more detail. ❍❍❍

The Internet of Things (IoT)

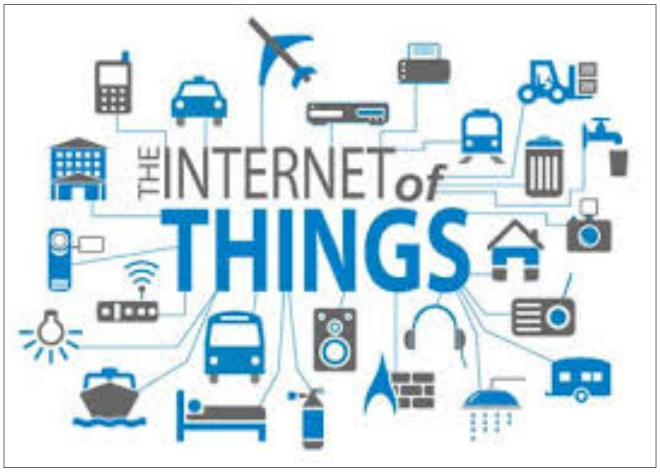
As Hurricane Dorian barreled towards the east coast in late August, many Tesla owners in the storm's path learned that their cars had unexpectedly, and thankfully, acquired the ability to drive much farther on a single battery charge. Modern day vehicles can be considered the ultimate personal computer device. Not only do today's cars have awesome computing power, but many, including Tesla's full lineup, are connected to the internet. Software in Tesla's less-expensive models inhibits the full function of the battery in order to limit their range. In late August, Tesla tweaked the software to remotely give targeted vehicles temporary access to the full power of their car's battery.

The Next Revolution

As the cost of computing, data storage and connectivity have continued to decline, it has become easier to incorporate systems into everyday objects. The price of computation today is roughly one hundred-millionth what it was in the 1970s, when microprocessors first became commercially available. Even cheap, battery-powered chips now offer performance better than the super-computers of the 1970s. A megabyte of data storage in 1956 would have cost about $85,000 in today's dollars. It now costs just $0.00002. Connectivity continues to increase, and related costs continue to decline. The International Telecommunications Union, a trade body, estimates that 51.2% of the world's population had internet access in 2018, up from 23.1% just ten years earlier.[1]

At its core, IoT represents an environment that contains connected devices (anything with a sensor), and applications that process information gathered from the devices (anything from a social media app or an e-commerce platform, to a manufacturing system or a home climate system). IoT will drive the so-called Fourth Industrial Revolution — a term used to describe the sociological and economic impact of big data, artificial intelligence and robotics.

Connected devices are everywhere. In the last two completed calendar years, more than 100 million smart speakers were purchased worldwide. As of December 31, 2018, there were more than 5 billion connected devices.[1]



Computer chips are now installed in countless everyday objects. Contact lenses can analyze tears and provide information directly to doctors. Wearable devices gather and report data on fatigue, appetite, blood pressure and heart rate. Homes include smart safety systems, plugs, thermostats and locks. Smart mirrors display weather conditions and various notifications from your smart phone. Google Glass allows instantaneous, contextual interaction with the digital world — hands free. And driverless cars, with broad connectivity to their surroundings, will provide the ultimate convenience in transportation.

Of course, connected devices are very useful in business. Systems have been developed to forecast machinery maintenance requirements. Sensors have been imbedded in concrete to identify breakdown. Bridges and tunnels include monitoring devices. Smart commercial buildings can track usage and pedestrian traffic, and make adjustments to reduce operating costs. Such systems can also track employee productivity and/or customer habits. Insurance companies are developing surveillance systems to track policyholders. One Florida mega-church uses a tracking system to monitor attendance. Farmers use IoT systems to track the health of their crops as well as their farm animals, maximizing productivity.

IoT Is Big Business

Bain Capital, a management consultancy, forecasts that total spending on IoT will reach $520 billion by 2021. As stated in a recent PricewaterhouseCoopers report, the "Internet of Things is transforming the everyday physical objects that surround us into an ecosystem of information that will enrich our lives. From refrigerators to parking spaces to houses, the Internet of Things is bringing more and more into the digital fold every day, which will likely make the Internet of Things a multi-trillion-dollar industry in the near future."

We recognize the importance of this and related technologies, which is why most of the portfolios we manage have 20% or more of equities invested in the technology sector. Client portfolios include many companies that can continue to benefit from growth in this area, from chipmakers and system developers, to innovative companies incorporating IoT that are otherwise outside of the technology sector.

Brendan O'Brien, Chief Innovation Officer at Aria Systems, has said "If you think the internet has changed your life, think again. The Internet of Things is about to change it all over again!" We agree. And we are invested to take advantage of this groundbreaking technology.

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[1]The Economist, September 14th-20th, 2019