“Benefit Trends: Understanding the Latest in Retirement and Benefit Plans”

The rules and offerings in the retirement and benefits space are always changing, and many of our clients tell us that they just don’t have time to keep up. Join financial experts from Hefren-Tillotson as they offer an update on the latest trends and regulations.

Speakers:

Ed Lettieri, Director, Hefren-Tillotson

Ari Goldberg, Financial Advisor, Hefren-Tillotson

Larry Jacobson, Senior Vice President, Jacobson Associates Inc.

Topics:

1. 3(16) Fiduciary
2. Cash Balance Plans
3. Roth Conversions
4. Group & Consumer Driven Health Plans
5. COBRA compliance
6. ERISA

CHALLENGES AND SOLUTIONS FACING NEW RETIREES

Today's typical retirement ages of 65 and 66 are merely reference points. Normal retirement age, and those who just want out, is in the mid-to-late 50s. These are the men and women you see jogging on a sunny afternoon while listening to alternative music through their earbuds; working out at the gym; windsurfing; playing tennis, or sitting next to you at the concert. Many are healthy, wealthy and wise.

Unlike their parents, when these 50-somethings think retirement, they think preservation of lifestyle. However, regardless of age, redefining the next stage of life has its challenges and rewards. Individual needs, wants and financial situations vary. Therefore, each age group shares similar anxieties that go together with lengthy retirements: cash flow, management and expense management.

Clearly, this is not your father's retirement

Twenty years ago, the model for common sources of retirement income was the "three legged stool." People say it is outdated. But is it?

· **The first leg** - a long-term pension. It does most of the work, like the engine that drives the train, and is the source of the majority of lifetime income. Pensions barely exist anymore. They were replaced by 401(k) and 403(b) plans.

· **The second leg** - Social Security. The extra horsepower. When added to the pension, it makes up the difference in necessary monthly income.

· **The third leg** - personal savings. The caboose. It's the period at the end of a sentence, always there when you need it.

With lifespans increasing due to better health maintenance, you can assume your retirement standard of living will, too. Investors share the same philosophies: less tolerance of the downside and more ways to protect and upside their retirement income, not dumping everything into bonds and participating in the growth of the equity markets, without losing sleep over a bad market or bad market decision.

Set realistic goals for income and manage the cash flow

Clearly, among other things, unexpected retirement disrupts cash flow. Financial plans are projected on retirement age, not 55, for example. So when advisors shift a portfolio from growth to income – from accumulation to distribution – a planned and sustainable income stream supplemented by outside investments and tax-wise considerations must be created and managed to allow this process to work.

Life insurance has proven to be the more efficient vehicle when passing wealth to the next generation. Proper planning involves knowing if you have a significant enough estate to pass assets to the next generation and also provide some level of protection for a surviving spouse. Equally important is having clarity about what your objectives, concerns and how your family will survive if you are disabled.

Should you pay off your mortgage?

This question comes up a lot, as housing remains the number one expense. That's why it is especially important to discuss income, and meeting living expenses, with your advisor to reevaluate your lifestyle and help you determine if you need the big house before you retire. These are typical concerns to consider.

1. What is your personal tolerance for making a mortgage payment? If you have the assets, and there would be no strain on them whatsoever to make the payments, carrying a mortgage you can afford to pay is okay.

2. Should you pay off your mortgage? If paying off, consider opening a home equity line of credit at the same time. Should you need to tap into it, you'll have access.

3. Should you sell, downsize and move somewhere cheaper? When you sell you pay off the mortgage and make a profit. Should you take that profit and pay cash for a townhouse that's smaller but cheaper in the same general area? Profit is nice … not having house payment and putting that money in your own account is even nicer – as long as it costs less to run the townhouse than it did the house.

You don't necessarily have to get rid of all debt. Obviously, if you're paying 10% or more in interest, this is oppressive debt. It must go.

But by and large, maintain a good credit rating to show lenders you have borrowing, purchasing and bill-paying ability. Besides, why burn up your cash paying for everything when you don't have to? It's in your best interest to know where to draw the line on borrowing. Keep one credit card that you can pay off each month and earn rewards for doing so.

WHAT YOU SHOULD KNOW ABOUT CASH MANAGEMENT IN RETIREMENT

Managing your retirement is comparable to managing your own small business. You fund it, set realistic goals, see that they are attained, stretch the dollar, buy the deals, control the profits, monitor the results, take a paycheck and pay your taxes. You work at it every day because you are the money manager with an eye on longevity.

With this extraordinary position also comes an exceptional benefit: support and guidance from your financial advisor. Initially, your advisor laid the groundwork for your lifetime income stream. It's in your best interest, and that of the "business," to continue investing for your ultimate retirement adventure.

Developing your "business" plan

By definition, cash management is the collecting, managing and investing of cash. Basically, it is an accounting of what comes in (receivables) and what goes out (payables). This time, it's on your shoulders. It's your cash and your gain.

In advance of retirement, your decision-making and goal setting should be aimed at achieving the type of retirement you and your partner want to enjoy. So, if you haven't done so already, carefully prepare a written plan to answer these questions:

- What is my (our) vision for a successful retirement?
- How much investment capital will I (we) need to get started?
- What goals must I (we) set to make this work?
- How will I (we) meet these goals?

This plan, albeit simpler than a real business plan, is about definition. It has merit because like all successful entrepreneurs, you must define your course of action and recognize the need for adequate capital to launch, maintain and follow the plan to ensure its success for years to come.

Incoming and outgoing cash control

All incoming cash flow from outside sources arriving at various times should have a central location for multiple checks to funnel through. A key component of your retirement portfolio is having a centralized asset account, also known as a cash management account, for various forms of income like Social Security, pension and income from assets in a single location.

Typically, bank direct deposit works, but don't rule out remote deposit if you prefer doing it that way. Snap a photo or scan the checks with your phone for depositing.

Budgeting, and managing that budget, is both your protection and discipline. All outgoing cash flow consists of fixed and regular expenses. There are some you might eliminate, like a mortgage, second car

and business clothing. So whether you write checks or use electronic banking, have the flexibility to easily manage your payments from wherever you are using your laptop or smartphone.

Managing the management

Peter Drucker, author, and one of the most widely-known and influential thinkers on management, said, "Management is doing things right; leadership is doing the right things." As manager, your task is to steer the efforts and activities in the direction defined by you and your partner toward your mission, vision, goals and objectives you've defined, and these important considerations:

• Pay yourself first

• Maintain six-to-twelve months' expenses in a savings account for emergencies

• Build up a cushion of cash reserves to equal two-to-five years' living expenses. It should, however, be less than 25 percent of your portfolio's value

• Consider a jointly, agreed-upon percentage of income to invest every month to let the power of compounding work for you

• Plan out your cash flow needs and choose investments with an appropriate risk level to match those needs

• Manage your taxes by carefully timing your withdrawals and taking advantage of all tax breaks for those 65 and older

Debt Avoidance

"There is scarcely anything that drags a person down as debt," P.T. Barnum said. Create a realistic spending plan that details when and how you'll make large purchases, like buying a new car. You don't want to finance it, so as some experts suggest, before you retire, or even when you retire, buy a bond or a CD for the sole purpose of purchasing the car once the bond or CD matures. You want liquidity, and not a large monthly payment hanging over your head.

As you know, most Americans are woefully illiquid, and have created unmanageable credit card debt often brought on after a major event they didn't have the cash for. An emergency fund would help satisfy the obligation, as earmarking an investment for buying a car or putting on a new roof would, but many people are not wired that way, thinking that outgoing comes from only one available source – credit. A recent study revealed that 39 million Americans have been in credit card debt for at least two years, some even longer. And credit card debt can haunt you forever.

STAYING ON TRACK WITH YOUR RETIREMENT GOALS

Planning for the future with your life partner is something you should enjoy doing together. Decisions made about retirement will play key roles in your overall success. That's why most advisors tactfully prefer both partners being present and involved, not only so they both have their say, they both understand the process, but also so the advisor knows where they both are coming from.

Unfortunately, there is more to retirement than whittling away the hours together. Retirement is about time and money – two good reasons why goal planning and monitoring must be of the utmost importance to making the relationship and the finances last for years to come.

Blindly saving

To fund your retirement, you smartly and methodically contributed to a 401(k) plan at work, an IRA, and diversified investments and index funds without duplication.

Like you, most people do save something for their retirements, but in many 401(k) plans, they are not saving enough.

If you are between 50-59, you might currently have an average balance of almost $180,000. So before you retire, and while you still can, are you going to increase your contributions? Some people think they can't afford to save more.

"Knowing the right thing and doing the right thing don't always go hand in hand," said Gina Harbison, Retirement Plan Coordinator from Hefren-Tillotson Corporate Services Department. "If you know the amount you need to live on in retirement, you are able to develop habits to motivate your actions." If you don't know, you are blindly saving."

"We help people determine what they should be saving and how to budget. You can see where you can cut back on spending and easily take that savings and direct it into your 401(k)." Harbison's comments were featured on Ask The Advisor, the financial Q&A podcast, presented by Hefren-Tillotson.

Real returnable income

Truth is, not everyone has the same retirement needs. And since this is real money, with real meaning, that must follow a real plan and a set of goals to fund the next chapter of your lives, take a look back at your life before proceeding forward.

You worked hard and paid your dues; you did it without inheritances, profit from selling a business or a stock market windfall. You earned it from 40+ hours a week and 35 years of paychecks. You paid the bills, insurances for the car, home and health, living expenses and a whole lot more – none, of which, is returnable income to you.

In addition, though, you paid for a home, a car, assorted personal items, material things and perhaps to learn a skill, all considered returnable income – you can be paid for them. Where that income goes and how it benefits you in retirement is up to you. But does your investing cease when you retire?

You also invested outside of your 401(k), and these assets along with years of paying into Medicare and Social Security, will come back to you in dollars and services. Consequently, once your retirement goals are in place, your "real money" supervision is essential. Keep a close watch on these particular items:

Real rate of return – after taxes and inflation, this is the true value

Purchasing power – your dollars will buy less in the future than they do today

Longevity – regardless of your life expectancy your plan is to not run out of money

Legacy planning – if you plan to spend most of your money in your lifetime, or give a big part of it to the kids, grandchildren, charity or other organizations you feel strongly about, then stick to it

High-interest debt – key word is "high," but some low interest debt is good to keep

A reality check meeting

One way to derail your plans is if spending patterns change and unscheduled withdrawals are more frequent. Your portfolio value will drop dramatically. This is why your advisor first develops an understanding of your needs and wants: to break down what you need by guaranteed withdrawals, what you want, which will fluctuate from year to year, to what you can realistically afford to cover additional wants.

Furthermore, if spending reaches unmanageable levels, the plan to allocate money at previous levels falls apart. So it is then that your advisor must then call a "reality check" meeting, to communicate to the family that the money they are counting on may not be available as intended.

These are difficult meetings to have because of the noticeable distress to family members your advisor knows personally. Remember, your trusted advisor is also part of the family.

Additional family consulting might be necessary to move families from emotional to rational because if the parents run out of money, the kids will have to support them.

SUCCESSFUL INVESTING, LIKE SUCCESSFUL RETIREMENT, BEGINS WITH A PLAN

"Where do you want to be in five years?" The question once sent shivers up and down the spine. But whether a hiring manager or a financial advisor asks it, you'll still need a good answer. To be better prepared, first ask yourself these questions:

- What do I earn and what do I save?
- Can I earn more; live on less and save more?
- Am I invested to hedge inflation?
- Am I as tax-smart as I should be?
- How risk-averse am I?
- What do I owe and when will my bad debts be paid?
- What do I need, and when?
- What do I want?
- What are my goals?
- How and when will they be achieved?

Most people are so involved in what's happening today that they aren't able to think about tomorrow, much less five years from now. One day you could be sitting in a business-as-usual meeting, and the next day you are staring involuntary termination or early retirement in the face. Both are highly unexpected, unwanted risks.

Having an "emergency preparedness" plan will help you navigate toward a practical outcome. The plan you create should be the plan you stick to.

Successful retirement planning requires unbiased advice, flexibility and the willingness to look at all aspects of your life and tailor your objectives to averting the ultimate future risk of outliving your money. Ideally, successful investing systematically focuses on short, medium and long-term, well-defined goals.

But be warned: this road is littered with everyday expenditures that cause you to spend more, more frequently. The plan objective is: spend less, make more, and then invest even more. How do you do that?

- You must have a reasonable budget. Like running a business, jot down your expenditures and have regular budget reviews. Your personal balance sheet and personal income statement will tell the tale. But to spend less, you must have discipline and restraint, especially after seeing how over budget you are.

· You must pay yourself first. Apart from your 401(k), give yourself 10% to 15% per month toward savings, if you can, while keeping in mind your paychecks will only come from you in the future as self-employed.

· You must invest more. As you earn more – in your new job or old job, your big bonus or small bonus – don't spend it; add it to your contributions or other investments. Your financial advisor is your best resource for this. He or she will advise you that there is no stock and bond mix that excludes the possibility of loss. To experience higher returns, you'll have to tolerate greater losses.

Because an advisor's knowledge and experience working with individuals in similar situations, you'll need this professional expertise to guide you through investment choices and mixes of stocks, bonds, annuities and mutual funds, mortgage and lending opportunities, life insurances, disability, health and long-term care insurance, estate planning and tax planning.

It's about perception. Yours.

Hanging on to a struggling stock or annuity – "staying the course" – tied to the belief that "hanging in" for the long haul was the right thing to do? Nonsense. You lost valuable time and money that cannot afford to lose. "Don't get married to the stock," is the axiom. Staying the course only makes sense up to a certain point. And then you must cut your losses. Keep in mind that a 50% loss requires a 100% gain.

The government says you'll live an average of 20 years in retirement. So the money you put in during your working years, and Social Security, is what you'll live on when you retire. Therefore, you must nurture, protect it from loss and know how to spend it wisely. You must know how to make more of it, too.

Will you spend less money in retirement? Only you'll know. Experts say you'll still need around 75% of what you were earning before. And with rising healthcare costs, taxes and inflation always menacing, you must be vigilant – and thrifty.

Retirement: time and money

Malcolm Forbes said, "Retirement kills more people than hard work ever did."

How you spend your free time is important. Although exercising, staying active and spending quality time with others is a good start, maintaining mental sharpness is equally important as physical or financial fitness. Test yourself and try new things!

How to Retire Wild, Happy and Free author Ernie Zelinski celebrates retirement as the beginning of a new life.

"Retirement is the perfect time to become the person you would like to be and do the things you have always wanted to do. In short, it's up to you to design a lifestyle that is as relaxing and invigorating as you want it to be."

Amen to that.

TODAY'S WOMAN IN RETIREMENT

Women born in 1953 turned 65 in 2018. Looking back, they confronted the turbulent sixties with gusto. They graduated high school in 1971, college in 1975, began careers, got married and raised their children. Like many, their lives whizzed by, perhaps never envisioning what retirement would be like for them.

According to the Centers for Disease Control and Prevention, their life expectancy is an additional 5 years above their male counterparts. That's 5 more years of vacationing, exercising, connecting and spending time with family, volunteering, reading, golf, and caring for others.

While each woman's story is uniquely different, unfortunately, only about half of today's women feel confident about retiring comfortably1. Women earn 79 cents for every dollar men make and are more likely to take time away from work to raise children or become caregivers for family members. It's much harder to save for retirement, given these circumstances.

Strides – and great ones, at that, can define women's lives

In 2018, history was made with 17 black women elected judges in the largest county in Texas. More women of varied ethnicities were elected to serve in Congress than ever before.

While a record number of women are succeeding in the public sector, there is a noticeable 25 percent decline in female chief executives in the private sector, according to Fortune's 2018 list of women CEOs at Fortune 500 companies.

As The New York Times' Claire Cain Miller reported, "By making caregiving a women's problem, companies avoid changing their cultures in ways that would give everyone more work-lie balance – for example, by limiting after-hours work or offering more flexibility about when and where work gets done."2

Caregiving … for yourself, too

Former first lady Rosalynn Carter described it this way: "There are only four kinds of people in the world: those who have been caregivers; those who currently are caregivers; those who will be caregivers; and those who will need caregivers."

Statistically, women live longer – there are about 11 million widows in the U.S. as compared to about 2 million widowers3. Women are also less likely to remarry after the death of a spouse than men.

With their longer life expectancies, women also face higher health care costs in retirement. According to Forbes, "lifetime health care costs for a 65-year-old woman living to age 89 will be $314,673, on average, compared to $267,395 for men."1

When a spouse dies, income drops

“Death of a spouse” is #1 on the stress index scale and is considered one of life’s most devastating events. Not having a plan, or course of action, to counter this loss simply adds to the stress.

Long-term care is a major expense

Many individuals are also concerned about how much a nursing home would cost, if needed. Long-term care insurance is financial protection from loss or harm, and a transfer of risk from you to the insurance company. It is can be a viable solution to a what-if scenario when assistance is needed for the activities of daily living – eating, bathing, dressing, toileting, transferring and continence. While some may consider long-term care insurance an expense, it is, in fact, an investment in your future when purchased early enough, to protect your estate and not deplete it to pay for catastrophic care.