CBIZ Retirement Plan Services

RETIREMENT MATTERS

1ST QUARTER 2019

YOUR RETIREMENT PLANNING NEWSLETTER

Is There a Secret Formula for Financial Wellness?

There are many prescriptions to get to financial health. Here are four proven strategies to help you get there:

Setting and sticking to a budget

In 2017, 78% of Americans said they were living paycheck to paycheck, up from 75% three years earlier.[1] Part of the reason may be that only 41% of us use a budget,[2] even though it's one of the best ways to keep track of where our money goes.

Fortunately, it's a pretty easy problem to fix. Try writing down what you spend every day for six months. At the end of six months, add up what you have spent in major categories (living expenses, transportation, dining out, and so forth), and see if what you're spending money on brings you joy. If it doesn't, time to create a budget! Budgeting is the process of taking control of your money, rather than trying to figure out where it went. Budgeting looks forward, not backward.

Saving for emergencies

Just 39% of U.S. households have the savings for an unexpected $1,000 outlay,[3] such as making out-of-the-blue house or car repairs. Many experts think you should have three to six months of living expenses stashed away. Saving up doesn't need to be hard. Simply put $40 or $50 a month into an account, and let it build — it will help you feel more secure financially.

Paying down debt

The average household has $134,058 in debt, including credit cards, mortgages, and auto and school loans.[4] We suggest attacking two kinds of debt first:

- High-interest-rate credit cards: Every dollar you spend paying down a credit card that charges 19% per year is like getting a 19% return on that money.
- Small credit-card balances: Maybe you signed up for a store credit card and used it once or twice. Carrying a small balance may not seem like a big deal, but retiring this type of debt can give you an emotional boost.

Planning for retirement

The median working age couple has only $5,000 saved for retirement, according to a Federal Reserve study.[5] Unfortunately, most people don't start saving until it's too late. There's even a big cost if you delay savings just one year. Look at how much money a 26-year-old gives up by delaying the start of contributions by just 12 months:

Your Starting Age	Your Contributions by Age 65	Your Account Value at Age 65	The Cost of Waiting One Year
25	$48,000	$324,180	
26	$46,800	$299,008	**$25,172**

This is a hypothetical illustration intended to show how a one-year delay in investing might affect savings. It is not intended to depict the performance of any particular investment. Assumes monthly contributions of $100, an annual 8% hypothetical rate of return in a tax-deferred account, retirement at age 65, and no withdrawals. Savings totals do not reflect any fees/expenses or taxes. The accumulations shown would be reduced if fees and taxes had been deducted.

You may be able to achieve financial health simply by following these four guidelines.

1 Source: careerbuilder.com. National survey conducted online by Harris Poll on behalf of CareerBuilder from May 24 to June 16, 2018.

2 Source: U.S. Bank, CNN.com, October 24, 2016. https://money.cnn.com/2016/10/24/pf/financial-mistake-budget/index.html

3 Source: https://www.bankrate.com/banking/savings/financial-security-0118/

4 Source: https://www.nerdwallet.com/blog/average-credit-card-debt-household/. Balances as of June 2018.

5 Source: https://www.marketwatch.com/story/the-typical-american-couple-has-only-5000-saved-for-retirement-2016-04-28

When Cash is King

Retirement planning is not all about investment growth and asset allocation. Cash is an often overlooked, yet essential way to stabilize your income, improve your ability to handle unanticipated expenses, and to become financially flexible.

Here's a short, practical guide for setting up a robust cash management strategy using three types of cash "buckets":

- **Operating cash (zero- to six-month horizon):** This is the money you use to meet daily cash management needs, such as paying bills or living expenses. You may want to focus on putting your cash into low-risk options, such as a bank checking or savings account that gives you ready access to funds.
- **Core cash (six- to 12-month horizon):** You may need periodic access to funds to pay for planned needs, such as holiday gifts, an annual vacation or paying for insurance premiums. The focus for this bucket is not primarily liquidity (meaning you are comfortable tying up your money in a short-term CD or Holiday Club account that may offer incremental yield, but limits when you can withdraw funds).
- **Strategic cash (12- to 24-month horizon):** For major intermediate-term goals such as paying for college tuition, you can set up a strategic cash bucket that identifies how much cash is needed ahead of time. You'll want to balance risk and return depending on how far out the bills are due.

When planning for financial needs that are well into the future, savings and investing can be the preferred tools to use. But if you have short- to intermediate-term goals, a well-crafted cash-management approach can be an important part of your wealth planning activities.

Spring-Clean Your Finances: 10 Tips to Boost Savings

Find areas in your budget that you may be able to live without.

Here are 10 quick and easy ideas for generating an extra $250 a month that can be used to pay down debt or redirect to your retirement savings:

Must have … or nice to have?

	Savings Idea	Minimum Monthly Savings
1.	Cut out the boutique morning coffee – make at home.	**$35**
2.	Drop cable TV – you can find most shows online for free.	**$20** *(basic cable)*
3.	Stop eating out one night a month.	**$80** *(family of four)*
4.	Borrow two movies from your local library instead of paying monthly streaming fees.	**$10**
5.	Make a list before going to the grocery store.	**$20**
6.	Invite friends to play board games over a simple meal.	**$25**
7.	Properly inflate your car's tires, and clean the air filter.	**$10** *(depending on driving distances)*
8.	Give a gift of services instead of an item. For aging relatives, offer to clean out their garage this spring.	**$20**
9.	Instead of going to the mall, check out your town's recreational areas and entertainment offerings.	**$20**
10.	Buy staples in bulk, such as canned tuna, paper products and laundry soap.	**$10**
	TOTAL MONTHLY SAVINGS	**$250**

The Stock Market Drops. Now What?

In October 2018, the Dow Jones Industrial Average, a widely followed measure of stock-price performance of 30 of the largest U.S. companies, dropped 1,380 points in just two days. While that sounds scary, it was just a 5% move, taking the index back to mid-July 2018.

Still, you might have noticed that when your funds have been doing well, you feel pretty euphoric, but when they're down, you feel a lot worse than the pleasure you felt when they were doing better. This is a psychological effect known as loss aversion, and it's believed to be hard-wired into our brains.

The best way to respond to these emotional swings is to try to take emotion out of the equation altogether. Over long market cycles historically, markets have moved up, although, as always, they fall eventually. It's that long historic sweep that you should focus on, not short-term movements.

You should also pay attention to the things you can control in investing and ignore what you cannot change. Here are a few tips to keep in mind:

- **Diversify your investments.** If you're well diversified across stocks, bonds and cash, the likelihood of suffering significant losses may be lower. If your investments are concentrated, it's like putting all your eggs in a single basket. If the basket falls, there's a good chance that those eggs will be broken. But if you spread your eggs in multiple baskets, the risk that all will fall at the same time becomes significantly smaller (and the chance that one or more baskets will rise, also goes up).[6]
- **Look at what's behind the slump.** There are lots of reasons why markets rise and fall, and they are not all tied to financial performance of the companies issuing stocks or bonds. It's possible that the broad economy could be sagging, with low growth and/or high unemployment. Or a down market could be partly related to geopolitical events, such as unanticipated election results or instability in developed or emerging countries, or natural disasters.
- **Don't ignore your ability to sleep well.** If, after examining your asset allocation to make sure it is aligned with your long-term goals and determining what's behind market weakness, you still feel anxious about big market swings, you may want to revisit your stock allocation.

On balance, investing for retirement should be a fairly boring exercise. After all, it's a process where results unfold over decades, not weeks or months. Often, the most important thing you can do when markets fall is… nothing. But you should do so only if the decision doesn't keep you up at night.

Recovering from Market Crashes

Historically, falling stock markets eventually recovered. Unless you have a very short timeframe until you need access to your retirement funds, or are well into your retirement years, it may be better for you to remain invested during a downturn. Even people who were unlucky to invest $1,000 in the S&P 500 right before a stock market crash made their money back within a few years if they continued to add $1,000 to the market every year, according to a study from CircleBlack, a financial technology company.[7]

Great Recession

2 years

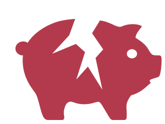
Dotcom Bubble

5 years

1970s Recession

3 years

Great Depression



7 years

[6] Diversification does not assure positive return or protect against losses in a declining market. All investing involves risk, including principal loss.

[7] Source: https://blog.circleblack.com/should-you-be-afraid-stock-market-crash. An investor needs to consider carefully the ability to maintain a regular investment program during an extended market downturn. Past performance does not guarantee future results.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Healthcare takes a bigger share of Social Security benefits as you age

Many people expect that they will be able to live on less income in retirement. Some expenses clearly will fall for some (such as mortgage payments and commuting costs), but others may rise, and potentially increase over time (such as healthcare). Based on current projections from HealthView Services, a 45-year-old couple will spend an average of 63% of their Social Security income on healthcare. But at age 87, that same couple will need 72% of their Social Security income to cover health-related expenses.[8]

Q&A

What is a deferred annuity?

A deferred annuity is an insurance contract that exchanges a lump sum payment, or series of payments, for a guaranteed delayed future stream of income, installments or lump sum. Money inside the contract accumulates tax-deferred until it's withdrawn. Returns can be variable (that is, based on market performance) or fixed. Savers sometimes use annuities to supplement income from their pension plan or Social Security. All annuity guarantees are subject to the claims-paying ability of the insurer issuing the contract, so it's important to look closely at the strength and stability of the insurance company you're considering.

Quarterly Reminder

With the level of market volatility that we experienced in 2018, it is possible that your preferred asset allocation may be off target. Say, for example, that your target international stock allocation is 30% of your portfolio. In 2018, your international holdings dropped to 20%, due to weakness in global markets. To rebalance your portfolio to its original target, you would sell enough of what increased in your portfolio to restore your international holdings to 30%.[9]

Tools & Techniques

Investment concepts you should understand

Investment literacy is an important way to stay on top of your retirement plan. Bone up on 12 key investment principles that you need to stay informed by viewing a quick slideshow at https://tinyurl.com/financial-glossary from AARP.

[8] Source: http://www.hvsfinancial.com/wp-content/uploads/2018/09/2018-Retirement-Health-Care-Costs-Data-Report.pdf

[9] Tax implications should be considered when implementing a rebalancing strategy. Auto-rebalancing options may also be available.

CBIZ Retirement Plan Services

National Resources. Local Service.

Tucson, AZ 520.320.3811	**Atlanta, GA** 770.858.4401	**Minneapolis, MN** 877.323.3867	**Orlando, FL** 407.475.1765
San Jose, CA 408.794.3529	**Overland Park, KS** 913.345.0500	**Kansas City, MO** 816.945.5199	**Cleveland, OH** 877.323.3867
Denver, CO 720.493.8289	**Cumberland, MD** 301.777.1500	**St. Louis, MO** 877.323.3867	**Philadelphia, PA** 877.876.3539

6050 Oak Tree Blvd. • Cleveland, OH 44131

Kmotion, Inc., 412 Beavercreek Road, Suite 611, Oregon City, OR 97045; 877-306-5055; www.kmotion.com