M Financial Group™ Barry Evans Josephs & Snipes
*Priorities preserved.*

M Financial Group™
*Member Firm*

Q4 2018

# Participant Perspectives

## Could You Live on $16,848 a Year?

It doesn't seem like a lot, but it's the average annual Social Security benefit for all retired workers in 2018. Could you get by on this amount?

Sure, some expenses could be lower once you retire — your mortgage may be paid off, your children may be financially independent, and you may not have work-related expenses. However, other expenses, such as new hobbies or additional travel, may take their place. And you should anticipate that certain expenses, such as health care, will be more costly as you age. Also, don't forget the potential for inflation and its impact on the cost of food, utilities, and other goods and services.

**Contributing to your employer-provided retirement plan is an important first step, but it can be important to keep increasing the amount you contribute over time.**

### Social Security Is Only a Safety Net

It may not be wise to count on Social Security alone. If you want a better quality of life in retirement, you have to take responsibility now and focus on building your own retirement savings. You can use the savings you accumulate while you are working to help make up the difference between what Social Security may provide and what you'll need to live comfortably when you retire.

### Harness the Power of Compounding

Contributing to your employer-provided retirement plan is an important first step, but it can be important to keep increasing the amount you contribute over time. The more you put into your plan, the greater your potential retirement income. Long-term compounding may turn even a small contribution increase into a higher plan balance at retirement.

### Facts About Social Security

| | |
|---|---|
| **8%** | The amount your benefit grows per year for each year you put off enrolling after full retirement age (up to age 70) |
| **2.8** | The number of current workers for each Social Security beneficiary |
| **95%** | Percentage of working Americans ages 20–49 who have survivors insurance protection for their spouse and children through Social Security |
| **89%** | Percentage of workers who are protected by Social Security in the event of a long-term disability |
| **6.2%** | Social Security payroll tax on earnings up to $128,400 in 2018 (the employee and the employer each pay this tax) |

*Source: Social Security Administration, 2018*

# Participant Perspectives

## Three Things You May Not Know About Your Retirement Plan

Many plan participants may not fully understand all the advantages their employer-provided retirement plans provide. Here are three aspects of your retirement plan that may surprise you.

1. By law, the assets of a retirement plan are held in a trust (or invested in an insurance contract), separate from the assets of the employer sponsoring the plan. Plan assets must be used solely to benefit plan participants and beneficiaries.
2. Your retirement plan assets are portable, so if you change jobs, you won't have to start over. You may have several options for your retirement savings, such as keeping the money in your current plan, moving your savings to another employer's retirement plan or an individual retirement account, or cashing out your plan assets.
3. You can change beneficiaries. If there's a major change in your life, you have the flexibility to add or subtract individuals from the list of beneficiaries who would receive the assets in your retirement account upon your death.

Employer-provided retirement plans also offer tax benefits, professional investment management, and an automatic payroll contribution feature, all of which can simplify and streamline saving for retirement.

**Employer-provided retirement plans also offer tax benefits, professional investment management, and an automatic payroll contribution feature.**

### How America Views Retirement Plans

U.S. households hold generally favorable impressions of 401(k) and similar "defined contribution" retirement plans. Among surveyed households with defined contribution plan accounts or individual retirement accounts:

| |
|---|
| **91%** agreed that their plans helped them think about the long term, not just their current needs |
| **82%** said the tax treatment of their retirement plans was a big incentive to contribute |
| **86%** had favorable opinions of their plans |
| **83%** were satisfied with their plan's investment options |

*Based on data compiled from American Views on Defined Contribution Plan Saving, 2017, Investment Company Institute, February 2018.*

## Required Minimum Distributions (RMDs)

For traditional IRAs and employer-sponsored retirement savings plans, individuals must begin taking required minimum distributions no later than April 1 following the year in which they turn 70½. RMDs from a 401(k) can be delayed until actual retirement if the plan participant continues to be employed by the plan sponsor and he or she does not own more than 5% of the company. The size of an RMD is determined by the account owner's age. An account owner with a spousal beneficiary who is more than 10 years younger can base required minimum distributions on their joint life expectancy.

### Estimating the Required Minimum Distribution

This is the most broadly applicable required minimum distribution table — the Uniform Lifetime Table for unmarried owners, married owners whose spouses are not more than 10 years younger, and married owners whose spouses are not the sole beneficiaries of their accounts. Other tables apply in other situations.

# Participant Perspectives

| Age | 70 | 75 | 80 | 85 | 90 | 95 | 100 | 105 |
|---|---|---|---|---|---|---|---|---|
| Actuarially projected life expectancy (in years) | 27.4 | 22.9 | 18.7 | 14.8 | 11.4 | 8.6 | 6.3 | 4.5 |
| RMD (% of assets) | 3.6% | 4.4% | 5.3% | 6.8% | 8.8% | 11.6% | 15.9% | 22.2% |

*Source: The Internal Revenue Service*

### A Potential Tax Benefit for Company Stock Held in a Retirement Plan

For individuals who hold company stock in their 401(k) or other qualified retirement plan, the IRS offers certain tax advantages when withdrawing company stock from the plan. Rather than paying ordinary income tax on the entire amount of the withdrawal, you may elect to pay it on the original cost basis of the stock, assuming it was paid for in pre-tax dollars, then pay capital gains tax, usually at a lower rate, on the net unrealized appreciation when you eventually sell the shares.

Keep in mind that the IRS has exacting requirements for exploiting all of the tax management strategies discussed above and that tax laws are subject to change. You should review your cash management plans with your tax and investment advisors before taking any specific action.

## Millennials: Is it Time for a Plan?

With decades of working years ahead of them, millennials have plenty of time to lay the financial groundwork for a comfortable retirement. Nonetheless, the findings of a recent study from the Center for Retirement Research at Boston College[1] may serve as a wake-up call.

### Falling Behind

Using government data, researchers looked at the segment of millennials who were ages 25–35 in 2016 (born 1981–1991) and compared their situations to Gen Xers (born 1969–1979) and late baby boomers (born 1954–1964) at the same age. The researchers found the millennials lagging on several measures:

- Median earnings
- Employer-sponsored retirement plan participation
- Access to employer-provided health insurance coverage
- Homeownership

While the millennial group surpassed earlier generations in terms of educational attainment, with larger percentages of both men and women having a college degree, 46% were carrying student loan debt. The median balances outstanding on those student loans amounted to more than one-third (34%) of the millennials' median earnings. By contrast, the Gen Xers had a student loan debt-to-income ratio of 25% and the late baby boomers just 14%.

A look at overall net wealth compared to income (median) also revealed a shortfall for the millennials, with that ratio standing at 40%. It was 53% for the Gen Xers and 47% for the late baby boomers at the same age.

1. Alicia H. Munnell and Wenliang Hou, "Will Millennials Be Ready for Retirement?," Center for Retirement Research at Boston College, January 2018.

# Participant Perspectives

The study's conclusion: Due to labor market challenges and the burden of high student debt, the millennial group has fallen behind their earlier-generation counterparts in preparing for retirement. But that doesn't mean that 20- and 30-somethings should give up on retirement planning.

## Moving Forward

These strategies may be helpful to millennials in their planning efforts.

**Stick to a budget.** Mobile apps and other tools make it easy to track daily spending and take control of cashflow.

**Live an affordable lifestyle.** It can be tempting to buy an expensive vehicle or home as soon as earnings increase, but big-ticket purchases should be carefully considered. Taking on large amounts of debt prematurely can cause unnecessary financial stress.

**Put saving on autopilot.** Instead of waiting to see how much money is left at the end of the month for saving and risking coming up short, it can be simpler and more effective to have a set amount of pay automatically transferred to a savings account and/or retirement savings plan, such as a 401(k).

**Say "yes" to the match.** 401(k) and similar workplace retirement plans that provide employer-matching contributions offer eligible employees an opportunity to build additional savings simply by contributing enough to the plan to qualify for the maximum match.

**Don't shy away from investing.** Understanding the risks and potential rewards of different types of investments, as well as one's individual goals, risk tolerance, and time horizon, is critical to developing an appropriate investing strategy. Working with a knowledgeable financial advisor can make the process less intimidating.

## Contact Information

To learn more, please contact:

**Clint Crocker**
Barry, Evans, Josephs & Snipes
(704) 333-0508
www.bejs.com