FINANCIAL*ink*

Your Money Management Newsletter

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Retirement Savings on the Rise

A survey of 401(k) and IRA accounts found record average balances in 2017, with solid improvement over 2016 and even more impressive gains over 2012. Although strong stock market performance is responsible for much of these gains, the survey found that employees and employers are contributing more to workplace retirement accounts.

Average account balances

Source: *Employee Benefit News*, August 3, 2017 (June 30 data)

Average percentage of total household expenditures spent on food in 2016. About 7.1% was spent on food at home and 5.5% on dining out. The largest categories of household expenditures were housing (33.0%) and transportation (15.8%).

Source: U.S. Bureau of Labor Statistics, 2017

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Practical insights for your **FINANCIAL GOALS**

International Investing: Opportunities Overseas?

In late June 2017, a time when U.S. market indexes were at near-record highs, 65% of investment managers thought the U.S. stock market was overvalued. By contrast, 86% thought European stocks were *under*valued, and 88% thought stocks in emerging markets were undervalued.[1]

At the same time, a majority of investment managers felt that U.S. corporate and economic fundamentals were strong, and more than a third believed that the U.S. market was fairly valued or undervalued.[2]

While large-scale professional investors may swing back and forth between favoring domestic or foreign stocks, the question for most individual investors is what role, if any, international stocks should play in a long-term investment strategy.

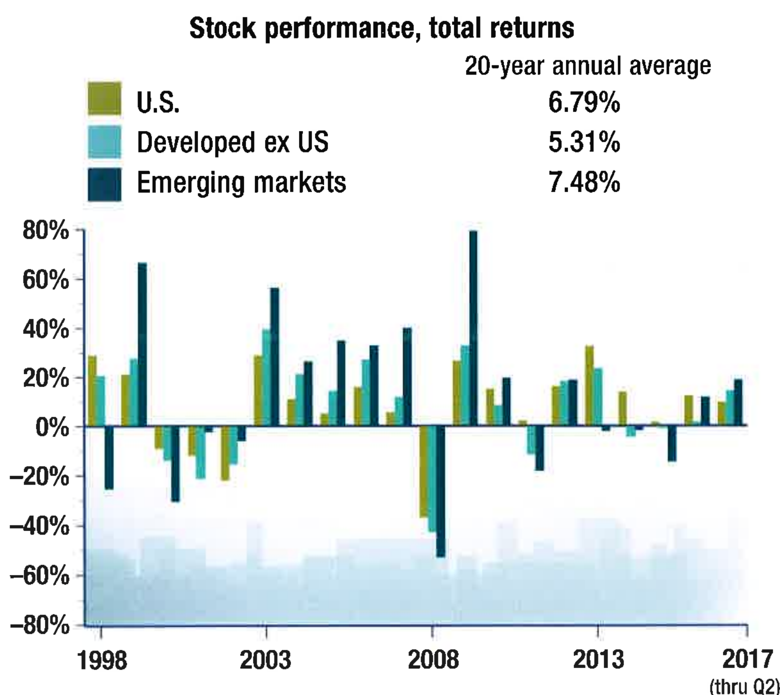
Growth Potential and Diversification

Emerging markets and developing economies account for about three-fourths of global growth, and growth prospects are looking up for more advanced economies outside the United States.[3] Investing globally provides access to some of these growth opportunities and could help diversify your portfolio, because domestic and foreign stocks tend to perform differently from year to year (see chart). Diversification is a method to help manage risk; it does not guarantee a profit or protect against loss.

Although foreign equities can be part of a diversification strategy, keep in mind that nearly half of the earnings of large U.S. companies comes from overseas, so you may already have exposure to foreign markets.[4]

Foreign or Domestic?

Over the past 20 years, stocks in emerging markets have outperformed U.S. stocks, but have been much more volatile. Stocks in developed foreign economies have yielded less than domestic stocks, but have outperformed in 10 of those 20 years.



Source: Thomson Reuters, 2017, for the period 12/31/1997 to 6/30/2017. U.S. stocks are represented by the S&P 500 Composite Total Return Index; developed ex US stocks are represented by the MSCI EAFE GTR Index; and emerging market stocks are represented by the MSCI EM GTR Index. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, especially for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Additional Risk and Volatility

All investments are subject to market volatility, risk, and loss of principal. However, investing internationally carries additional risks, such as differences in financial reporting, currency exchange risk, and economic and political risk unique to a specific country. Emerging economies might offer greater growth potential than advanced economies, but the stocks of companies located in emerging markets could be substantially more volatile, risky, and less liquid than the stocks of companies located in more developed foreign markets.

Funds Across the World

The most convenient way to participate in global markets is by investing in mutual funds or exchange-traded funds (ETFs). There are broad global funds that attempt to capture worldwide economic activity, funds limited to developed nations or emerging economies, regional funds, and funds that focus on a single country. The term "ex US" or "ex USA" typically means that the fund does not include domestic stocks, while "global" or "world" funds may include a mix of U.S. and international stocks.

The return and principal value of all stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) MarketWatch, July 21, 2017
3) International Monetary Fund, 2017
4) InvestmentNews.com, April 29, 2017

An Introduction to Trusts

You may think trusts are only for wealthy people, but this is not necessarily the case. A properly constructed trust can serve many purposes for families of more modest means. A trust might help avoid the time-consuming and costly probate process, maintain control of a legacy for your heirs, provide for a dependent with special needs, or make a substantial contribution to your favorite charity.

Legal Control of Assets

A trust is a legal arrangement in which one person or institution controls property given by another person for the benefit of a third party. The person giving the property is referred to as the *trustor* (or *grantor*), the person controlling the property is the *trustee*, and the person for whom the trust operates is the *beneficiary*. With some trusts, you can name yourself as the trustor, the trustee, and the beneficiary.

Although you may be hesitant to give up control of your assets, in some cases it might be worthwhile to choose an independent trustee who would be subject to strict legal requirements in administering the trust.

Testamentary vs. Living Trusts

A **testamentary trust** becomes effective upon your death and is usually established by your last will and testament. It enables you to control the distribution of your estate (and often is used to name a trustee for assets left to minor children), but it does not avoid probate. You can change or revoke a testamentary trust during your lifetime.

A **living trust** takes effect during your lifetime. When you set up a living trust, you transfer the title of all the assets you wish to place in the trust from you as an individual to the trust. Technically, you no longer own the transferred assets. If you name yourself as trustee, you maintain full control of the assets and can sell or give them away as you see fit. However, this option may negate any estate tax benefits.

Living trusts can be **revocable** or **irrevocable**. A revocable trust can be dissolved or amended at any time while the grantor is still alive. An irrevocable trust, on the other hand, is generally difficult to modify or revoke.

Special-Purpose Trusts

Trusts, whether testamentary or living, can be established for a variety of specific purposes. Here are three of the most common.

Incentive trust — Makes the transfer of assets to heirs contingent on their meeting goals or expectations, such as attaining higher education or starting a family.

Supplemental or special-needs trust — Can help provide for a disabled child and may ensure that the child qualifies for government assistance programs.

Charitable trust — Enables you to provide a charitable organization with a regular income for a set period or a lump sum at the end of the period.

There are costs associated with creating and maintaining a trust, and the use of trusts involves a complex web of tax rules and regulations. Consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing a trust strategy.

Comparing Features

Even if you have a trust, you should have a will to control assets not captured in the trust and/or to appoint a guardian for minor children. You might also need a will to establish a testamentary trust.

Features (Applies only to assets included in a will or a trust)	Will	Testamentary trust	Living trust	
			Revocable	Irrevocable
Control distribution of assets	Yes	Yes	Yes	Yes
Appoint guardian for minor-age children	Yes	No	No	No
Avoid probate	No	No	Yes	Yes
Avoid estate taxes	No	No	No	Yes*
Protect assets from lawsuits and creditors	No	Yes*	No	Yes*

*Depends on structure and situation.

Keeping Savings on Track with a Spousal IRA

Being a stay-at-home mom or dad, or working part-time to help take care of the children, can make a big contribution to the balance and well-being of a family. Unfortunately, time out of the workforce could put the caregiving spouse at a disadvantage when it comes to retirement savings.

A spousal IRA — funded for a spouse who earns little or no income — offers an opportunity to help keep the retirement savings of both spouses on track. It also offers a larger potential tax deduction for a married couple.

Making Contributions

For the 2017 tax year, an individual with earned income (from wages or self-employment) can contribute up to $5,500 to his or her own IRA and up to $5,500 more to a spouse's IRA — regardless of whether the spouse works or not — as long as the couple's combined earned income exceeds both contributions and they file a joint tax return. An additional $1,000 catch-up contribution can be made for each spouse who is age 50 or older.

Contributions for 2017 can be made up to the April 2018 tax filing deadline. All other IRA eligibility rules must be met.

Income Phaseouts

If neither spouse actively participates in an employer sponsored retirement plan, contributions to a traditional IRA are fully tax deductible. However, if one or both are active participants, tax deductibility for joint filers phases out at a modified adjusted gross income (MAGI) of $99,000 to $119,000 for a participating spouse and $186,000 to $196,000 for a nonparticipating spouse (in 2017). Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may still be able to deduct an IRA contribution for a nonparticipating spouse.

Contributions to a Roth IRA are not tax deductible and are not affected by participation in a workplace plan. However, eligibility to contribute to a Roth IRA phases out for joint filers with a MAGI of $186,000 to $196,000 (in 2017).

Distributions from traditional IRAs are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½. Roth IRA contributions can be withdrawn penalty-free and tax-free at any time, but in order for earnings to qualify for a tax-free and penalty-free withdrawal, a Roth IRA distribution must meet the five-year holding requirement and take place after age 59½. (There are IRS exceptions to the early-withdrawal penalty and the five-year holding requirement.)

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Do you have questions about your investments or retirement savings strategies? We are here to help.

Working toward a better financial future,