FINANCIALink

Your Money Management Newsletter

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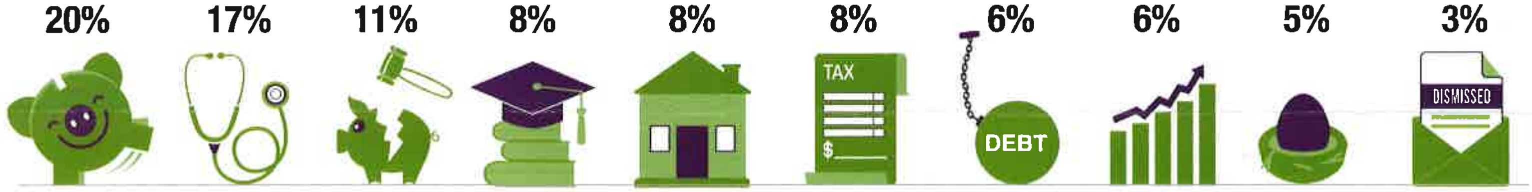
Top Financial Problems

In an April 2019 Gallup poll, 20% of Americans said they had no "most important financial problem" facing their families. Over the 14 years that Gallup has asked this question, this upbeat response has been exceeded only once — in February 2005 when 21% responded the same way. For the vast majority who did identify their most important financial problem, health-care costs topped the list.

Percentage of Americans who cited the following as the most important financial problem facing their families



20%	17%	11%	8%	8%	8%	6%	6%	5%	3%
None	Health-care costs	Lack of money/ Low wages	College expenses	Owning/ renting a home	Taxes	Too much debt	High cost of living/ Inflation	Retirement savings	Job loss/ Unemploy-ment

Source: Gallup, 2019

$307,700

U.S. median sales price of new homes sold in the first quarter of 2019, the lowest since the second quarter of 2016

Source: Federal Reserve Bank of St. Louis, 2019

Practical insights for your **FINANCIAL GOALS**

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Following the Market with Index Funds

At the end of 2018, index funds accounted for 36% of all assets invested in stock mutual funds and exchange-traded funds (ETFs), up from 18% in 2008.[1] What is the appeal of these funds? In a few words: low fees, simplicity, and tax efficiency.

Passive Tracking

As the name suggests, index funds track a market index such as the S&P 500, the Russell 2000, the Nasdaq, or other indexes that measure the performance of a specific group of securities. The fund manager purchases all the securities in the index (or a representative sample), so the performance of the fund follows the performance of the index. The manager might increase or decrease the size of the fund to meet investor demand, but would typically change the mix of securities only if the underlying index changes.

This type of approach is called *passive management* and generally allows for lower fees than those for comparable actively managed funds. Lower turnover of securities also may generate fewer and smaller capital gain distributions, which could help minimize tax liabilities and improve after-tax performance.

Strengths and Risks

Owning shares of an index fund allows you to participate in the market segment represented by the index, so these funds may provide a convenient way to diversify your portfolio — enabling you to invest in a broad range of strategies and securities through a relatively small number of funds. Diversification is a method to help manage risk; it does not guarantee a profit or protect against a loss.

The downside is that most well-known indexes are weighted based on market capitalization, the value of outstanding shares. This means the performance of the index (and the funds that track it) is dominated by the largest companies. For example, the top 10 companies in the S&P 500 account for more than 20% of the index.[2] So if you own shares of an S&P 500 index fund, your assets are more heavily invested in those companies than you may realize.

By contrast, securities in an actively managed fund are typically selected and weighted based on factors that the fund manager believes will outperform the market. Unfortunately, it's not easy to beat the market — just 35% of active funds outperformed the equivalent passive funds in 2018.[3] One way to further increase your diversification may be to hold a mix of index funds and actively managed funds in your portfolio.

The S&P 500 is an unmanaged group of securities that is considered representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

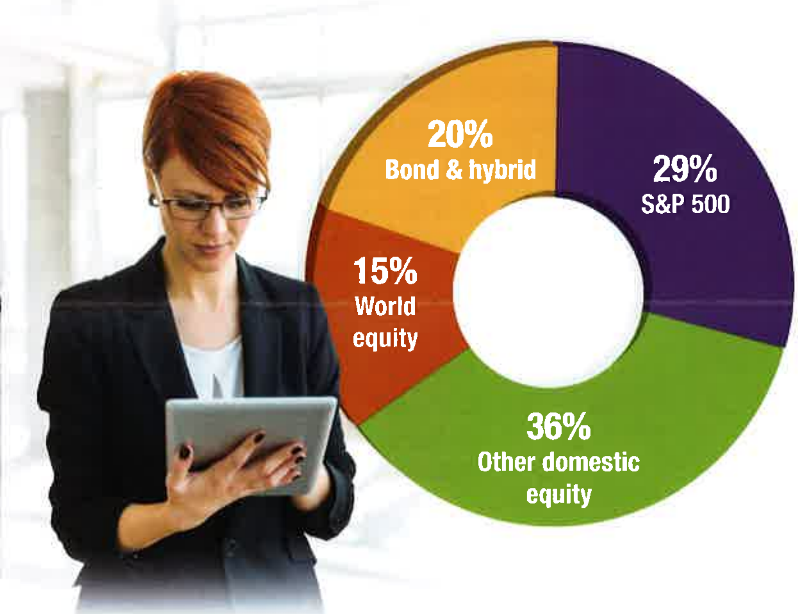
The return and principal value of mutual funds and exchange-traded funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the 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) Investment Company Institute, 2019
2) S&P Dow Jones Indices, 2019
3) Morningstar, February 12, 2019

Indexed Assets

At the end of 2018, 497 index mutual funds held $3.3 trillion in assets.* Here's how the assets were invested based on the type of securities tracked by the index.



*Index ETFs held an additional $3.2 trillion in assets.

Source: Investment Company Institute, 2019

Bond funds are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to the specific country. This may result in greater share price volatility.

Three Regrets of Retirees

A recent survey found that more than half of retirees have retirement planning regrets. Unfortunately, many of these retirees had to cut back on their lifestyles to compensate for financial shortfalls.[1] Considering their most common regrets may help you avoid making the same mistakes.

Not Saving Enough

More than one-third of retirees wish they had saved more.[2] How much is enough? The amount you need depends on your other sources of income and your anticipated retirement lifestyle.

It might be helpful to consider the 4% rule, a traditional guideline for the percentage of savings that you may be able to withdraw each year without depleting your nest egg over a 30-year retirement. For example, $100,000 in savings would provide only $4,000 in annual income. If you will need $20,000 from your savings each year, you should have $500,000 socked away by the time you retire. Withdrawing $40,000 annually might require $1 million in savings.

The longer you have before retirement, the more time you have to take advantage of long-term savings and compounding of potential returns. If you have a workplace plan, you might start by saving enough to receive any employer match and then increase your savings percentage by 1% each year until you reach 15% or more (see chart). You may need to target a higher percentage if you get a late start. Even if retirement is coming soon, you might be surprised by how much you can save if you focus on that goal.

Relying Too Much on Social Security

Social Security was never meant to meet all your retirement income needs. The average 2019 monthly benefit of $1,461 for a retired worker and $2,448 for a couple would hardly provide a comfortable retirement. The 2019 maximum worker benefit of $2,861 at full retirement age would be better, but that would require maximum taxable Social Security earnings for at least 35 years. Waiting until age 70 to claim Social Security can increase your benefit by 8% for each year after reaching full retirement age. For example, if you were born in 1960 or later, your full retirement age will be 67 under current law, so working until age 70 would increase your benefit by 24%.[3]

According to the most recent trustees report, Social Security may be able to pay out only 77% of scheduled retirement benefits beginning in 2034, unless Congress takes action to strengthen the program.[4] Considering the importance of Social Security, it seems unlikely that benefits will be reduced to that level, but this is another reason not to count too much on Social Security benefits for retirement income.

Not Paying Off Debt

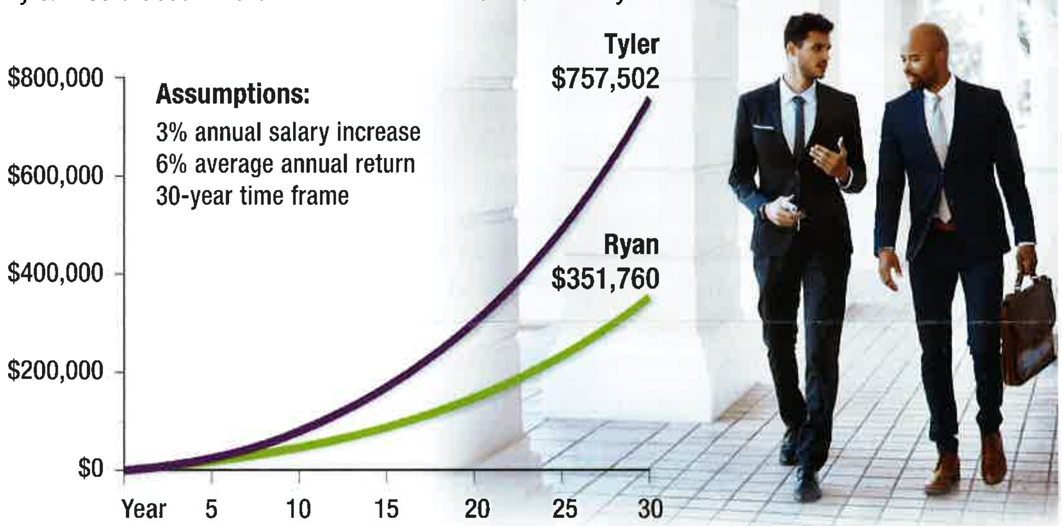
Carrying heavy debt can be a strain at any stage of life, but it can be especially difficult for retirees who are living on a fixed income. Paying off your home before you retire not only reduces your monthly expenses but also provides equity that could be tapped if necessary for future needs. Before paying off your mortgage, however, it might be wise to pay off credit cards and other high-interest loans.

The road to retirement can be challenging, but avoiding the mistakes made by those who have traveled before you may help you reach your destination with fewer regrets.

1–2) National Association of Plan Advisors, December 8, 2018
3–4) Social Security Administration, 2019

The Power of 1%

Ryan and Tyler were hired at the same time with a $50,000 starting salary, and both started contributing 6% to their retirement plans right away. Ryan maintains the same 6% contribution level throughout his career, whereas Tyler increases his contributions by 1% annually until he is contributing 15% of his salary each year. After 30 years, Tyler would accumulate more than twice as much as Ryan.



This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. It assumes a monthly deferral of salary and monthly compounding of earnings at a 6% annual rate. Fees, expenses, and taxes were not considered and would reduce the performance shown if they were included. Actual results will vary. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Medicare Open Enrollment

Each year between October 15 and December 7, Medicare offers an open enrollment period during which beneficiaries can make changes to several coverage options:

- Part A hospital insurance and Part B medical insurance, referred to as Original Medicare
- Part C or Medicare Advantage, which replaces Original Medicare and often includes prescription drug coverage and other services not covered by Original Medicare
- Part D prescription drug coverage, which can be selected with Original Medicare or Medicare Advantage plans that do not include drug coverage

Original Medicare is administered directly by the federal government and includes standardized premiums, deductibles, copays, and coinsurance payments. Medicare Advantage plans and Part D drug plans are administered by private companies approved by Medicare. Premiums, deductibles, copays, and coinsurance payments vary by plan.

During the open enrollment period, Medicare beneficiaries can do the following, with changes becoming effective on January 1:

- Change from Original Medicare to a Medicare Advantage plan, or vice versa
- Switch from one Medicare Advantage plan to another Medicare Advantage plan
- Join a Medicare prescription drug plan, switch from one Medicare prescription drug plan to another, or drop prescription drug coverage

Medicare Advantage plan participants who want to change back to Original Medicare can also do so from January 1 to February 14, with Original Medicare coverage beginning the first day of the following month. Those who make this change have until February 14 to join a Medicare prescription drug plan, with coverage beginning the first day of the month after the plan receives the enrollment form.

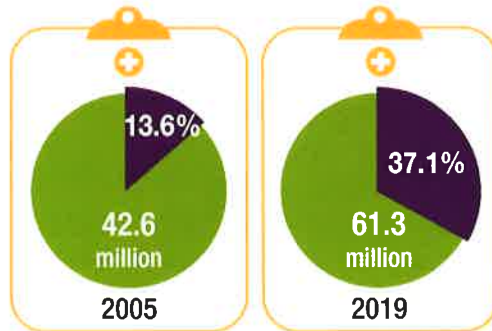
An additional opportunity, from December 8 to November 30 of the following year, allows Medicare beneficiaries to switch to a top-rated "5-star" Medicare Advantage plan or prescription drug plan. Medicare rates these plans every year, and a 5-star rating is considered excellent. You can use the star ratings to compare plans based on quality and performance.

For more on Medicare enrollment, visit ***medicare.gov/sign-up-change-plans***.

Going Private

Beginning in 2005, higher Medicare payments to Part C private health plans (primarily Medicare Advantage plans) have led to improved benefits and a large increase in the percentage of beneficiaries who choose the private option.

Total Medicare enrollment, with percentage of beneficiaries enrolled in Part C plans



Source: 2019 Medicare Trustees Report, Centers for Medicare & Medicaid Services

Is your savings strategy on target to enjoy a comfortable retirement? Call for an appointment today.

Working toward a better financial future,