FINANCIAL*ink*

Your Money Management Newsletter

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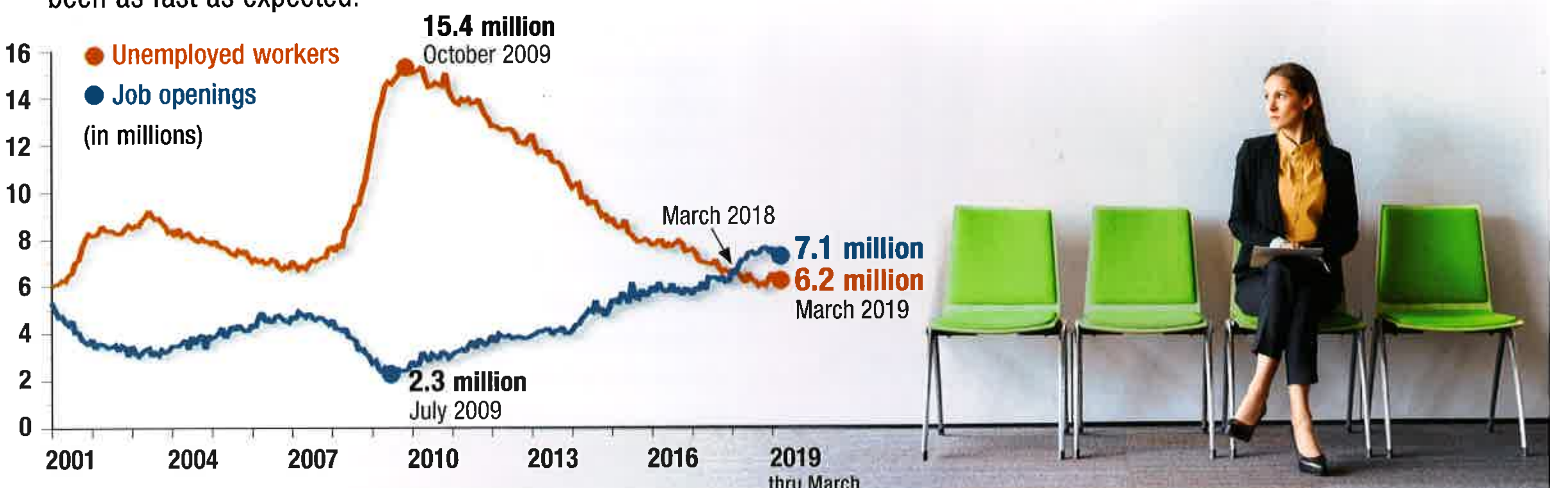
Open Jobs

Since March 2018, there have been more open jobs than unemployed people actively looking for work. In theory, this should push wages upward as employers compete for workers, but wage growth has not been as fast as expected.



Source: U.S. Bureau of Labor Statistics, 2019

77% of Americans are concerned that rising health-care costs will result in significant and lasting damage to the U.S. economy. Forty-five percent are concerned that a major health problem will lead to personal bankruptcy.

Source: Gallup, 2019

Practical insights for your **FINANCIAL GOALS**

Turning Workplace Savings into Retirement Income

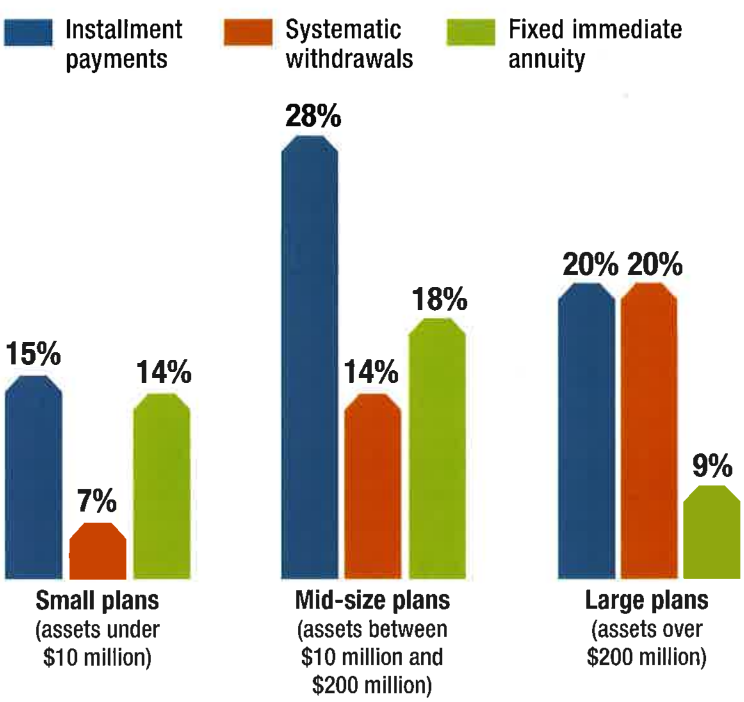
You've been saving diligently for years, and now it's time to think about how to convert the money in your 401(k) or other workplace savings plan into retirement income.

But many defined contribution plans are better suited for accumulating retirement savings than they are for generating a predictable income stream. For example, a government study found that only about one-third of 401(k) plans offered withdrawal options such as installment payments and systematic withdrawals.[1]

Installment payments are self-managed withdrawals made over a period of time (or a one-time withdrawal) and are typically used to meet short-term income needs. Systematic withdrawals are managed by the plan and intended to meet longer-term needs. The participant might set a monthly or annual withdrawal amount or a percentage of the remaining account balance, which could be fixed or adjusted for inflation.

Options Vary by Size

Withdrawal and annuity options in workplace 401(k) plans vary by the amount of assets in the plan, due in large part to administrative issues and liability concerns.



Source: U.S. Government Accountability Office, 2016 (selected options)

Annuities in Workplace Plans

Only a quarter of plans in the study offered an annuity — an insurance-based contract that provides a guaranteed income for a stated amount of time, typically over a set number of years or for the life expectancy of the participant (or the participant and spouse).[2]

In order for the investor to begin receiving payments, all or a portion of the cash balance in an annuity account must be "annuitized," which means the investor gives control of the funds to the insurance company in exchange for regular payments. Many workplace plans that include annuities do not allow participants to annuitize a portion of the account balance — the choice is all or nothing — which tends to make the annuity a less attractive option.[3]

Retirement Time

Some employer plans will let you leave your assets in the plan when you retire, but others may require you to take a lump-sum distribution when you reach the plan's retirement age. If you work part-time in retirement, you may be allowed to roll your assets into a new employer plan that accepts rollovers. Otherwise, you may choose to roll over the assets to an IRA, which might offer a variety of income and investment opportunities, including the purchase of annuity contracts. This would allow you to annuitize a portion of your savings while keeping the rest invested.

Regardless of the choices you make with your retirement accounts, keep in mind that you'll generally be required to begin taking minimum distributions from employer-sponsored plans and traditional IRAs starting in the year you reach age 70½; you can delay your first distribution to as late as April 1 of the following year.

Distributions from traditional IRAs and most employer-sponsored plans are taxed as ordinary income. Withdrawals taken prior to age 59½ may be subject to a 10% federal income tax penalty, with certain IRS exceptions.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity during the early years of the contract. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits other than those available through the tax-deferred retirement plan.

1–3) U.S. Government Accountability Office, 2016

Sticker Shock May Drive Consumers to Used Cars

The average transaction price of a new car or light truck was $36,733 in March 2019, up 2.3% from a year earlier.[1] New 2020 models will hit showrooms in August and September, and it's probably safe to say they won't be less expensive.

If cost were not a concern, most people might prefer a new car for a variety of reasons: the most recent technology and fuel-efficiency standards, choice of color and features, no wear and tear, a manufacturer's warranty, and that new car smell. But a quality used vehicle can be an appealing, cost-effective option. Here are three trends that could make 2019 a good year to buy a used car, especially a three-year-old vehicle.

Record lease returns. Leases reached a record 4.3 million in 2016, which was also the first year that leases for popular sport utility vehicles exceeded leases for other cars. Most of these vehicles are scheduled to be returned in 2019, flooding the market with quality three-year-old vehicles — and many 2016 models include newer technology and fuel efficiency.[2] Leased vehicles are typically in good condition because leaseholders must maintain the vehicle and limit mileage in order to avoid additional charges.

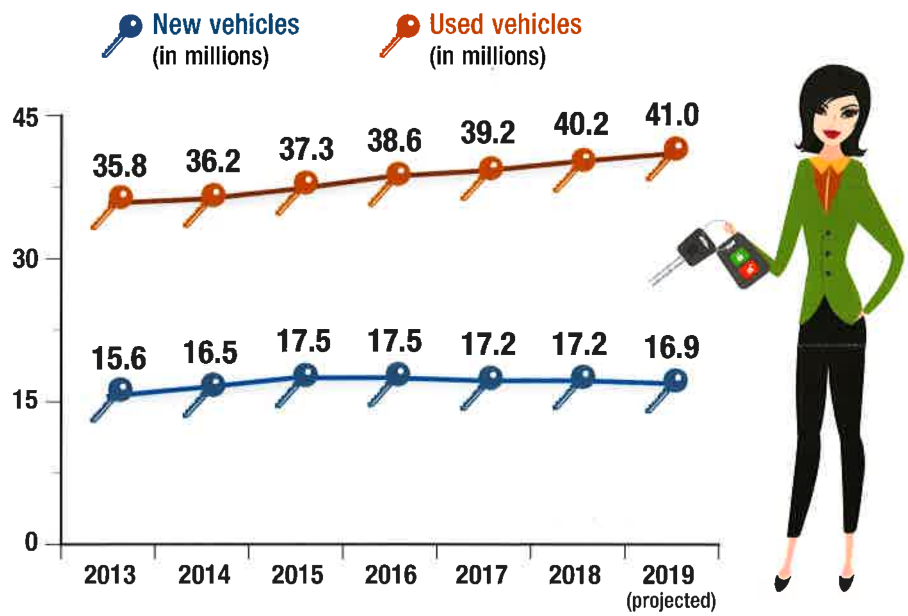
Growing price differential. The price gap between new and three-year-old vehicles increased 20% between 2013 and 2018, from $11,398 to $13,705.[3] The gap may be even wider in 2019 due to the large number of lease returns.

Tighter interest spreads. Until recently, the low-interest-rate environment enabled manufacturers to offer subsidized finance programs on new cars with very generous terms, including 0% interest rates. That has changed as rates in general have risen, and the spread between rates for loans on new and used vehicles narrowed to just 2.7% in 2018, with an average rate of 5.7% for new cars and 8.4% for used cars. By comparison, the spread was 4.0% as recently as 2012.[4]

Interest rates continued to rise in early 2019, but consumers with excellent credit ratings can still find lower rates, including some 0% offers on new cars. Lenders are offering longer loan periods to help keep payments down, but bear in mind that longer periods equate to higher total interest over the life of the loan.[5]

Shifting Auto Sales

New vehicle sales peaked in 2015 and 2016 and are expected to drop below 17 million in 2019 for the first time since 2014. Used-car sales have been increasing steadily and are expected to approach 41 million in 2019.



Source: Edmunds, 2018–2019

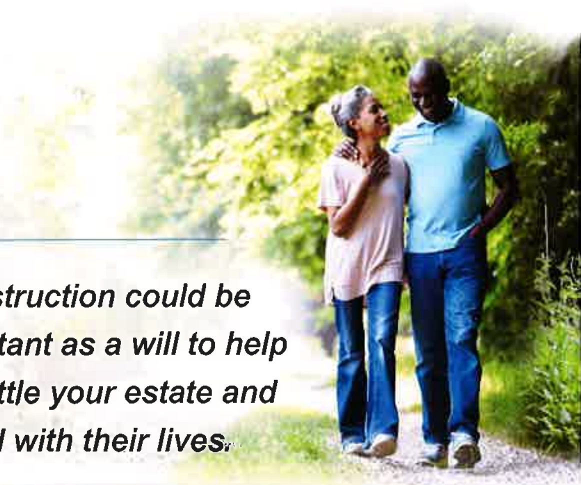
Certified Pre-Owned Vehicles

The term "certified pre-owned" (CPO) may sound like a fancy name for a used car, but these vehicles can be appealing if you don't want to pay new car prices. A CPO vehicle goes through a comprehensive inspection and maintenance process and comes with a factory-backed limited warranty and other benefits, such as roadside assistance and access to loaner cars. Some CPO vehicles may even include routine maintenance for a limited period.

A CPO vehicle will generally be more expensive than a similar non-certified used vehicle, but the additional expense may be worthwhile for added confidence in the quality and reliability of the vehicle. Dealers may also offer better loan terms on a CPO vehicle. A factory CPO vehicle can be offered only by a franchise dealer of the original manufacturer. Other dealers may call vehicles "certified" that have gone through an inspection and maintenance and come with a third-party warranty.

1) Kelley Blue Book, April 2, 2019
2–4) Edmunds, March 20, 2019
5) Edmunds, April 2, 2019

A Financial Map for Your Family



If you have a legal will, you've taken an important step to help your family know your wishes and make appropriate decisions. But a will does not address all the complicated matters of your financial life: bank, retirement, and investment accounts; insurance policies; a mortgage, loans, or other liabilities. And that's just a beginning.

A letter of instruction can provide a map to guide your loved ones through your financial world. Unlike a will, a letter of instruction has no formal legal status, so you can write it in any way you choose. But it could be just as important to help your heirs settle your estate and move forward with their lives.

A letter of instruction could be just as important as a will to help your heirs settle your estate and move forward with their lives.

Here are some issues you may want to address.

Financial accounts, including account numbers, online user names, and passwords. If you prefer not to write down user names or passwords, the executor of your estate should be able to access accounts with the account numbers and your Social Security number.

List of documents and their locations, including (but not limited to) your will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.

Contact information for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant. Also include others who may be helpful, such as a business partner or trusted friend.

Bills and creditors, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.

Your final wishes for burial or cremation, a funeral or memorial service, organ donation, and charitable contributions in your memory.

You might also include more personal thoughts or life lessons that you want to pass on, or you could write a separate letter. Keep your letter of instruction in a safe, yet accessible place and tell your loved ones where it can be found. It might be wise to give a copy to the executor of your estate and other trusted friends or advisers.

Be sure to review the letter regularly and update it as appropriate. Your heirs will thank you for taking the time to prepare.

Would you like to discuss strategies to help turn your retirement savings into retirement income? Call for an appointment today.

Working toward a better financial future,

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