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Your Money Management Newsletter

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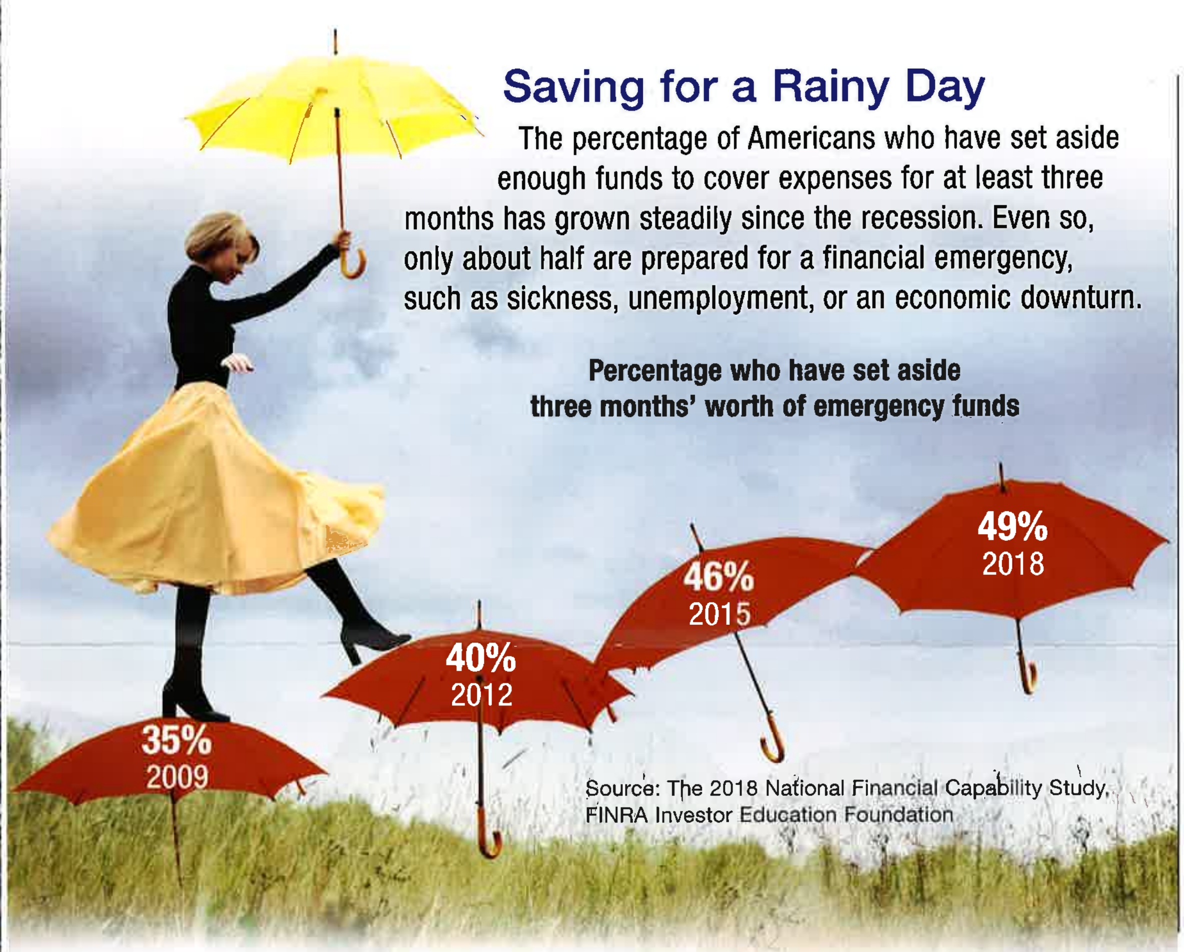
Saving for a Rainy Day

The percentage of Americans who have set aside enough funds to cover expenses for at least three months has grown steadily since the recession. Even so, only about half are prepared for a financial emergency, such as sickness, unemployment, or an economic downturn.



$2 billion to $4 billion

Estimated value of unused gift cards in 2019

Source: *The Atlantic*, August 27, 2019

Practical insights for your **FINANCIAL GOALS**

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Three Generations of Retirement Strategies

Generational disagreement is a constant of family life, but a recent survey found that millennials, Gen Xers, and baby boomers agree that saving and planning for retirement is a top financial goal.[1]

When it comes to pursuing that goal, however, each generation faces a different set of challenges. Of course, every individual is different, and there is no simple story for a whole generation. But here are some basic challenges and strategies to address them.

Millennials

Many millennials entered the workforce during the Great Recession, which gave them a slow start in finding well-paying jobs. About two-thirds of millennials work for employers that offer workplace retirement plans — similar to other generations — but only a third actually contribute to a plan. Many are ineligible to participate in their employer's plan because they work part-time or don't have enough tenure.[2] Millennials often carry high student loan debt, and they are most likely to feel the long-term effects of any reductions in future Social Security benefits.

The good news is that millennials are the most educated generation in U.S. history, and they have the most time to save. More than 94% of millennials who are eligible for a workplace plan participate. On average, they contribute 5% of their salaries (10% with an employer match). Experts recommend that workers contribute at least 15%, but millennials may need to save even more due to longer life spans.[3] The fundamental strategy for this generation is to save as much as possible as early as possible, whether in a workplace plan, an IRA, or another savings vehicle.

Generation X

Gen Xers were just hitting the prime of their working years when the housing bubble burst and the financial crisis hit the markets, reducing their home values and investment portfolios. These assets have mostly recovered, but this generation often faces the challenge of saving for retirement while supporting younger children at home, paying for college for older children, and/or helping aging parents.

Like millennials, Gen Xers still have time to save, but their timeline is tighter, so it's important to start looking at concrete numbers: analyzing current net worth and income, projecting retirement needs, and establishing a budget to meet those needs. This may involve a combination of simple adjustments (such as eating out less) and difficult choices (such as sending a child to a state college instead of a private school).

Baby Boomers

Almost half of baby boomers are already retired, and retirement is approaching quickly for those who are still working. Although this generation had the advantage of working during long periods of economic expansion that should have helped boost earnings and savings, many are woefully unprepared, due in part to the decline of pensions in private industry during their careers. One survey found that 45% of baby boomers have no retirement savings. Many boomers underestimate the income they will need in retirement as well as the cost of medical expenses and long-term care.[4]

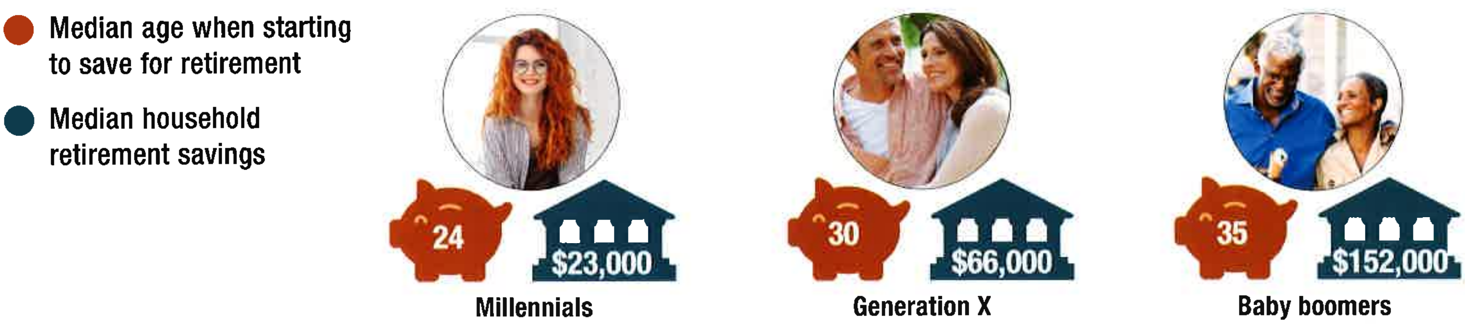
Working boomers should have a written financial plan for retirement that includes expected sources of income and projected expenses. If expenses exceed income, there may be time to accelerate savings enough to meet projected needs. Boomers (and older Gen Xers) can take advantage of catch-up contributions (for those age 50 and older) to workplace plans and IRAs. Some may have to work longer and/or cut back on their anticipated retirement lifestyle.

Saving for retirement is a long road with many twists and turns along the way. Whatever your generation or personal situation, it's better to address the challenges now rather than be surprised when you retire.

1) Business Insider, August 21, 2019
2–3) National Institute on Retirement Security, 2018
4) Insured Retirement Institute, 2019

When Did You Begin Saving?

Although millennials face new retirement challenges, they started saving earlier than previous generations.

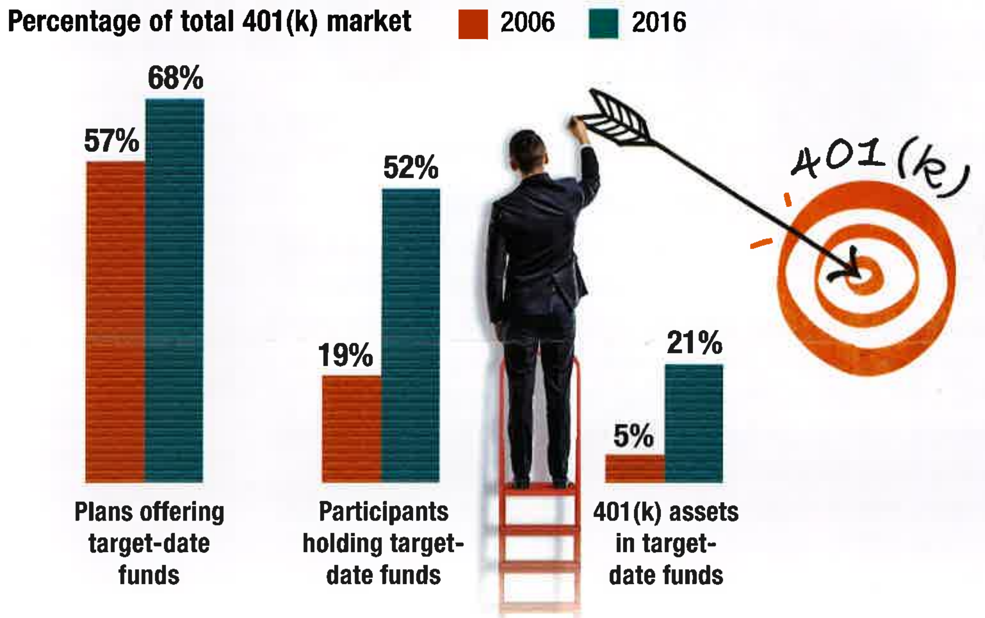


Source: PlanSponsor, April 17, 2019

Do Target-Date Funds Hit the Bull's-Eye for You?

Targeting the 401(k) World

The role of target-date funds in 401(k) plans grew rapidly in the decade from 2006 to 2016. They have become especially popular with younger investors. At year-end 2016, 401(k) participants in their 20s had 48% of their assets in target-date funds, whereas participants in their 60s had only 18% of their assets in these funds.



Source: Investment Company Institute, 2019 (most recent data available)

More than half of 401(k) participants have assets invested in target-date funds.[1] These "all-in-one" funds are often the default option in workplace plans, and their apparent simplicity appeals to many investors.

But target-date funds are not as simple as they appear to be. Like all investment strategies, they have strengths and weaknesses.

Focused on Time

Target-date funds offer a professionally managed mix of assets — typically a combination of other funds containing stocks, bonds, and cash alternatives — selected for a specific time horizon. The target date, usually included in the fund's name, is the approximate date when an investor would begin to withdraw money for retirement (or another purpose, such as paying for college). An investor expecting to retire in 2045, for example, might choose a 2045 fund. As the target date approaches, the fund typically shifts toward a more conservative asset allocation to help conserve the value it may have accumulated and potentially provide income.

One Size May Not Fit All

Target-date funds utilize basic asset allocation principles that are often used to construct more complex portfolios, but the allocation is based solely on the target date and does not take into account the investor's risk tolerance, personal goals, asset levels, sources of income, or any other factors that make an investor unique. An investor with $200,000 in a target-date fund has the same asset allocation as an investor with $20,000 in the fund. An investor who also has a pension and might be comfortable taking more risk with 401(k) investments is placed in the same risk category as an investor who will depend primarily on savings in the 401(k) account.

Considering this one-size-fits-all approach, target-date funds may be more appropriate for novice investors with relatively low assets or those who simply prefer a set-and-forget option in their 401(k) accounts. If you keep assets in a target-date account, it's important to learn more about the specific fund and how it operates.

Glide to or Beyond Retirement

The transition from more aggressive to more conservative investment allocations is driven by a formula called the *glide path*, which determines how the asset mix will change over time. The glide path may end at the target date or continue to shift assets beyond the target date, taking the fund into your retirement years.

Funds with the same target date may vary not only in their glide path but also in the underlying asset allocation, investment holdings, turnover rate, fees, and fund performance. Be sure you understand the asset mix of your fund and how it changes over time.

Asset allocation is a widely accepted method to help manage investment risk. It does not guarantee a profit or protect against investment loss, and there is no guarantee that you will be prepared for retirement on the target date or that the fund will meet its stated goals. Keep in mind that investing in other securities outside of a target-date fund may change your overall asset allocation.

The principal value of a target-date fund is not guaranteed before, on, or after the target date. The return and principal value of mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds 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

REAL ID Takes Off in October 2020

Beginning October 1, 2020, all U.S. residents will need a REAL ID-compliant license/identification card, or another acceptable form of identification (such as a passport), to board commercial aircraft and enter federal facilities.

You are not required to obtain a REAL ID and may continue to drive with a valid non-compliant driver's license and use it for identification. Enhanced driver's licenses (issued by Michigan, Minnesota, New York, Vermont, and Washington) are acceptable REAL ID alternatives. For others, see *tsa.gov/travel/security-screening/identification*.

Federal Standards for State Licenses

The REAL ID Act, passed by Congress in 2005, enacted the 9/11 Commission's recommendation that the federal government set minimum security standards for state-issued driver's licenses and identification cards. Progress has been slow, with some states requiring multiple extensions to establish their programs. By the end of 2019, all states were issuing compliant driver's licenses except Oklahoma and Oregon, which anticipate beginning to do so in April 2020 and mid-2020, respectively.[1–2]

If you are unsure whether your current driver's license is REAL ID compliant, check with your state's department of motor vehicles. Compliant licenses typically have a star in the upper portion of the card.

More Rigorous Requirements

To obtain a REAL ID, you must apply in person at your state's department of motor vehicles (or other approved service center) and provide the following documents in original or certified form:

- Proof of identity and lawful presence in the United States (e.g., valid U.S. passport, birth certificate)
- Social Security number (e.g., Social Security card, W-2 form, paystub with full SSN)
- Two documents showing proof of state residency (e.g., mortgage statement, tax return, utility bill, vehicle registration)

In addition, if your current name doesn't match the one on your proof of identity document, you must prove your legal name change (e.g., marriage certificate).

Many states allow applicants to begin the application online in order to help streamline the process.

If you have a valid driver's license that won't expire for a few years, there's no need to rush for a REAL ID-compliant license. But if you plan to fly on or after October 1, 2020, don't forget to bring your passport or other acceptable identification.

For more information on applying for a REAL ID, visit your state's department of motor vehicles website or *dhs.gov/real-id*.

1) Office of the Governor, State of Oklahoma, August 1, 2019
2) Oregon Driver & Motor Vehicle Services, 2019

Is your retirement savings strategy on track? Do you want to discuss the challenges you might face? Call for an appointment today.

Working toward a better financial future,