Reinventing RETIREMENT

Your Retirement Planning Newsletter

Second Quarter 2017

Retiring or Changing Jobs?

Here are a few tips on how to keep your 401(k) working for you

As more workers plan to continue working later in life, at more organizations, the ability to preserve their nest egg and keep it growing when they leave their current company is more important than ever. Here's an easy-to-understand guide to your most common options.

1. Don't cash out.

Let's say you're changing jobs and have just $1,000 in your 401(k). Once you've left your employer, why not just cash out the account? In fact, you should rarely — if ever — consider this option until you are at least 59½ years old. Otherwise the IRS considers this an early withdrawal, and will assess a 10% tax penalty on the amount withdrawn. Plus, your plan administrator will withhold 20% of the amount to cover the federal income taxes that will be due on the entire amount withdrawn. So, depending on your age and tax bracket, you might only receive $700 of the $1,000 withdrawal. More important, you give up the compounding growth effect on that money — the ability of your savings to earn interest on top of interest.

2. Keep your plan growing tax-deferred.

Most 401(k) plans give you the option to keep your savings within the plan when you leave the company, which is an easy and convenient way to keep your savings growing tax-deferred until you need to begin withdrawals. But you also have the ability to roll them into a new employer's plan, or an IRA. It's a good idea to compare all three options to see which is likely to produce the best results.

3. In general, pick the plan with better investment options.

Today's employers can use their bargaining power to pick investments for their retirement plans that are often better managed and offer lower fees than what you might find in a new employer's plan or IRA — even taking into account the greater number of investment options that IRAs may offer. So, sometimes it makes sense to stay with your current plan when you retire or leave, if you have the option to do so. Another consideration when comparing the IRA option to staying with your present plan is knowing that the process used to evaluate investment options in a 401(k) generally is subject to a higher standard of care than in an IRA.

4. Fees matter.

The investment costs you pay directly impact your returns and the size of your nest egg when you retire. A growing number of 401(k)s offer you access to lower-cost index funds and well-priced target-date funds that may help make your investment selection decision less complicated than picking among a group of individual funds. That said, you shouldn't necessarily ignore a great fund just because it charges more.

5. Watch out for your vesting schedule.

While you always get to keep 100% of the money you contribute to your 401(k), any matching contributions your employer makes only become yours after you are fully vested with your company. Find out when you become fully vested before you leave your job.

Student Loan Debt Growing for Older Americans

For parents who want to help their children pay off loans, a note of caution

A growing number of parents appear to want to help, as young-adult children struggle to pay off debt in an era when wages are not growing and rents are high.

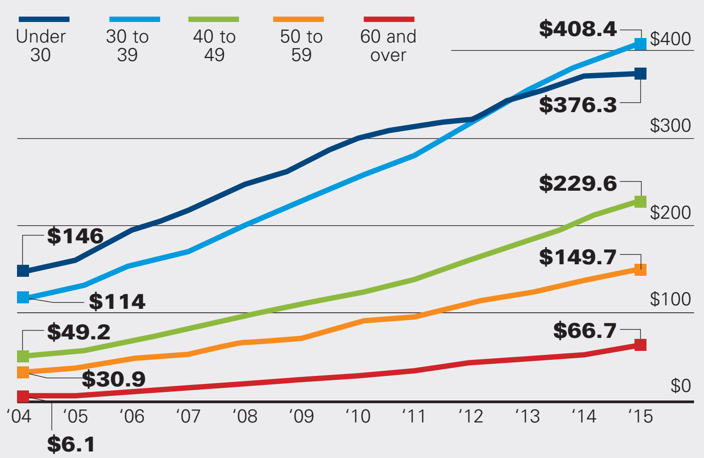
But parents need to be careful not to jeopardize their nest egg if they use it to help their kids. Paying down debt can quickly deplete savings, and borrowers who end up defaulting on school loans risk losing some of their Social Security income.

Overshadowing this problem is the fact that the fastest growing segment of borrowers burdened by student debt are not recent college graduates or millennials, but Americans over 60. Since 2005, this group has quadrupled in size, from 700,000 to 2.8 million, according to the Consumer Financial Protection Bureau.[1]

For Americans aged 40 and older, total college debt ballooned by nearly 42% between 2004 and 2015. But this amount is dwarfed by the 200% increase in debt levels for borrowers under age 40.

TOTAL COLLEGE DEBT

Overall college debt continues to rise for all age groups. (IN BILLIONS)



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax

The impulse to help students who are struggling to pay for college is admirable, but in many cases, older borrowers are trying to pay down their own school loans. Borrowers paying down education debt also need to consider that as they age, their incomes likely begin to flatten or decline just as their healthcare costs begin to rise — a financial squeeze that makes repaying school loans that much more difficult.

No matter the circumstances, here are three general guidelines to help borrowers manage student debt:

- For borrowers with multiple loans, it may make sense to pay off the ones with the highest interest rate first.
- Contributions to a child's student loan that's in the child's name only is subject to a gift tax if it's more than $14,000 (in 2017).
- Parents may not be able to claim a deduction on the amount contributed if the loan is only in the child's name.

According to a 2016 research study, nine in 10 families agree a college degree is more important now than it used to be. Interestingly, about the same percentage of families elected to self-fund two-thirds of college expenses for their children. The balance of payments (that is, the remaining one-third) came from multiple sources such as state and federal governments, colleges, community and nonprofit organizations.[2] As the vast majority of families stretch themselves to meet rising college costs, and as the share of the financial burden for parents grows, the need to have a plan for paying for college becomes even more important.

1 *Boston Globe*, January 22, 2017. http://www.bostonglobe.com/business/2017/01/22/seniordebt/I5QcuGws5vROW4qfhWLPfP/story.html

2 "How America Pays for College 2016," Sallie Mae and Ipsos Public Affairs. Telephone interviews conducted in March-April 2016 of 799 parents with children ages 18 to 24 enrolled as undergraduates, and 799 undergraduate students aged 18 to 24. http://news.salliemae.com/files/doc_library/file/HowAmericaPaysforCollege2016FNL.pdf

Packing Your Bags for Retirement?

The location decision should go beyond financial considerations of cost of living and taxes

One of the natural consequences of baby boomers getting older is an intense interest in exploring new living options. In 2020, some 71 million Americans will be 55 or older — the time when most begin to think seriously about when and where they'd like to retire.

Certainly, choosing a location inside or outside the U.S. with lower cost of living is an important consideration, as your income downshifts, and living expenses begin to be consumed by higher healthcare costs. Taxes also can have a limiting effect on your lifestyle. But focusing solely on these costs may be a disservice to how you want to spend your time in your later years. Here's a brief checklist to keep in mind as you weigh your options:

☐ **Being close (enough) to family.** Not surprisingly, this factor ranks up there with cost of living as among the most important factors for pre-retirees exploring location options. Being within a 20-minute or two-hour drive/flight can be an important consideration for retirees with extended families.

☐ **Sunny and 82 today.** Most "top 25 best places to retire" lists tend to cluster around warm or moderate climates, reflecting research that shows that baby boomers favor sunnier weather when they move. No surprise that Florida, Texas and North Carolina tend to attract lots of retirees, according to *Forbes*.[3] However, for those who don't mind hardy winters, North Dakota, Pennsylvania and Michigan offer communities with growing economies, pleasant shoulder seasons and plenty to do in the summer. More adventurous types may want to look internationally at Central/South America, the Mediterranean or Europe to find a retirement locale that matches their climate preferences.

☐ **What's your view from the kitchen window?** Another popular way to narrow your geography decision is to decide whether you prefer to be in an urban or rural setting, near mountains for hiking or skiing, or water for boating and swimming — or some combination of these features.

☐ **Home sweet home.** Retirement homes in the Northeast and California tend to be more expensive than those in the Sunbelt or Midwest. According to the U.S. Census, the median national sale price of a new single-family home was $305,400 in November 2016, a 27% increase from a decade earlier.[4]

☐ **When's your next checkup?** Measuring the ratio of doctors to the general population is a good way to benchmark the general level of healthcare in a given community, but don't forget to factor wellness, transportation, air quality and living arrangements into the mix. The Milken Institute regularly publishes a report on the Best Cities for Successful Aging, which can be a useful resource.

☐ **Strap on those walking shoes.** Active lifestyles are important to your physical and mental well-being as you age, and your ability to run errands or shop by walking a modest or short distance may be one of the most important non-financial factors to a successful retirement.

☐ **Get out and about.** Some retirees are perfectly happy spending every free day on the golf course, or fishing. Others may have a taste for theatre, arts, food culture or volunteering. For that reason, college towns have become very popular destinations for retirees who seek cultural or lifelong learning opportunities.

For those who seek it, retirement offers the opportunity for change. While it also can mean less income, it also suggests more time to do what you want to do. Picking a place to live that mirrors your goals can be the golden ticket to new-found freedom.

3 William P. Barrett, "Best places to retire in 2016," Forbes.com, April 4, 2016. http://www.forbes.com/sites/williampbarrett/2016/04/04/the-best-places-to-retire-in-2016/#3e36bea6703e

4 U.S. Census Bureau, "Median and Average Sale Prices of New Homes Sold in United States." https://www.census.gov/construction/nrs/pdf/uspricemon.pdf

Retirement in Motion

Tips and resources that everyone can use

The Rising Cost of Children

According to the U.S. Department of Agriculture, the cost of raising a child for middle-income families, including housing, food, primary/secondary education, transportation, clothing and healthcare — from when they are born in 2007 until they reach age 18 — is $229,270. This is about twice the rate of increase in inflation. Education and healthcare expenses have increased the most since 1960, from 2% to about 18% of parents' income.[5] But this estimate doesn't include the cost of college, a big-ticket item that keeps on rising. There is a silver lining, however: economies of scale. The more children you have, the less cost is incurred per child.

Q&A

What's a brokerage window?

A brokerage window is a service offered by some 401(k) plans that allows you to buy a wide range of stocks, mutual funds and other securities not offered in the core plan. A window may expand your investment choices, but also may incur extra fees and trading charges. As an investor, you need to decide to what extent the increased opportunities to generate returns are offset by the cost.

Quarterly Reminder

If you've had a major life change, be sure to update beneficiaries on your financial accounts. Your 401(k), IRA, mortgages and bank accounts all can be affected by marriage, adoption, divorce or a death in the family. Remember that if you inherit an IRA, it needs to be retitled in the decedent's name for your benefit. Otherwise, the IRS will treat your inherited IRA as your own. This could have an adverse effect on the tax treatment of your withdrawals. Consult your tax advisor for details.

Tools & Techniques

Financial health isn't the only thing to worry about in your later years. Good physical health through strength training is maybe even more important. Regular strengthening exercises help to prevent osteoporosis and frailty by stimulating the growth of muscle and bone. Your physical strength, in turn, adds to your mental and emotional health. Visit the Center for Disease Control's website to learn how easy it is to stay strong and healthy well into your 50s and beyond. https://www.cdc.gov/physicalactivity/basics/pa-health/.

Corner on the Market

Basic financial terms to know

Commercial mortgage-backed securities (CMBS) – CMBS are a type of debt-backed security that is secured by mortgages on commercial buildings, such as large apartment complexes, warehouses, office buildings and shopping malls. Some mutual funds invest a portion of their assets in CMBS. CMBS give investors easy access to commercial real estate as well as potentially higher yields than traditional government bonds, although with potentially more risk.

5 Sources: U.S. Department of Agriculture, Bureau of Labor Statistics.

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