

Q2 2017

# Participant Perspectives

## Facts of Investing Life

Some things will never change: The sun will always rise in the east, country singers will always sing about broken hearts, and it will always rain after you've washed your car.

On a more serious note, there are also certainties in the world of finance and investing. Two are particularly important for plan participants: (1) The prices of stocks and bonds will rise on some days and fall on others and (2) inflation will always be around. Understanding these two realities and knowing what—and what not—to do in response can help you better manage your plan investments.

## Rising and Falling

The values of stocks, bonds, and other investments can rise or fall on any given day. But the different asset types don't always move in the same direction. Stocks and bonds, for example, often react differently to developments in the market or economy. That's why you might want to consider diversifying your portfolio by selecting different types of investments.<sup>1</sup>

Although past performance never guarantees an investment's future results, in the past, bond returns have often been good during periods when stock returns were not so good—and vice versa. The chart illustrates how investing in both asset classes can help an investor lessen the impact of market risk.

## Steady Erosion

On to inflation. Even though inflation rates have been low during recent years, inflation can still “rob” your savings. For example, over a 30-year period, a relatively low average annual inflation rate of 3% will reduce the purchasing power of a \$200,000 retirement savings account to \$82,397.

That's why it's so important to account for inflation as you plan for your retirement. Even when inflation is low, it will increase the amount of income you'll need once you retire. If you want to maintain your standard of living throughout your retirement years, being able to absorb the impact of inflation is important. To combat the effects of inflation, you want your retirement plan investments to earn a rate of return that's *greater* than the annual inflation rate. That doesn't necessarily ensure that you'll meet your retirement income needs, but you'll at least keep pace with inflation. Investing a portion of your account in stocks, which have the greatest potential to earn inflation-beating returns, also increases the potential for your portfolio to meet your needs.

Your situation is unique, so be sure to consult a professional before taking action.

1. Diversification does not ensure a profit or protect against loss in a declining market.

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## Bonds Versus Stocks: Performance Variations

	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Bonds</b>	5.25%	5.93%	6.54%	7.84%	4.22%	-2.02%	5.97%	0.55%	2.65%
<b>Stocks</b>	-36.99%	26.45%	15.06%	2.11%	13.41%	32.39%	13.69%	1.38%	11.97%

Stocks measured by the S&P 500 Stock Index, an index of the stocks of 500 major corporations. Bonds measured by the Bloomberg Barclays Capital U.S. Aggregate Bond Index, an index of U.S. government, corporate, and mortgage-backed securities with maturities up to 30 years. Both indexes are unmanaged and carry no expenses. You can't invest directly in an index. These returns are for illustrative purposes only and don't reflect the returns of any specific investment or the returns stocks and bonds may earn in the future. Past performance doesn't guarantee future returns. Your investment returns will be different.

Source: DST

## Life Lessons: Don't Have a Mid-career Savings Crisis

Life can get in the way of saving enough for retirement, especially when you are busy with your job, family, and the other things that are important to you right now. However, keep in mind that your future financial security may depend on how much you save during your working years. Avoid getting so caught up in what's going on today that you neglect to prepare for tomorrow.

### Dueling Goals

If one of your financial goals is to help your children pay their college costs, it's likely that those expenses will occur before you retire. You may even consider waiting to save more for retirement until after your kids' college tuition is paid. However, if you keep putting saving for retirement last on your list of financial priorities, you may not have time to save enough for your retirement.

If you have to choose between funding your retirement and funding your children's college education, keep in mind that you're probably going to need a lot more money for a comfortable retirement than your kids

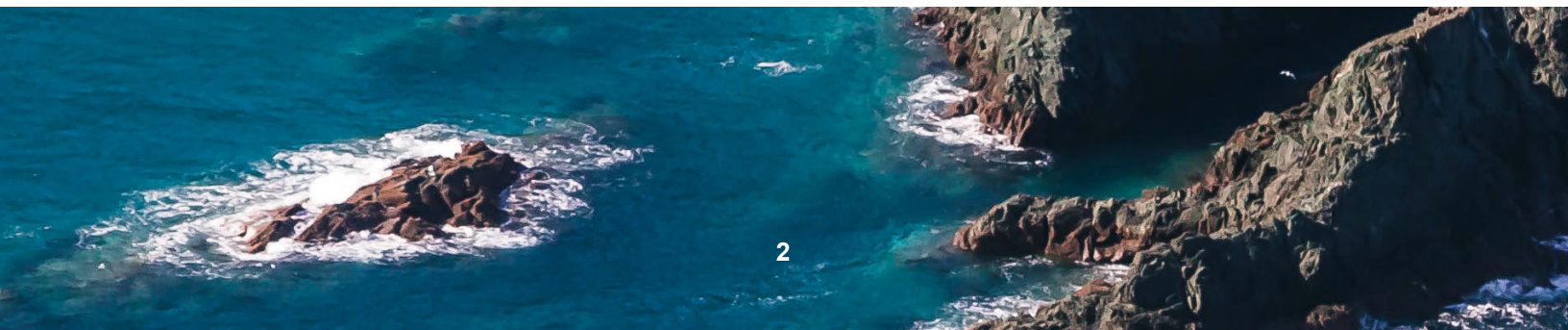
will need for college. When the time comes for college, your children may qualify for financial aid. And they can always pay some of their college costs by working part-time while in school.

### No Time to Lose

You may reach your mid-career years and realize that life has gotten in the way and you don't have as much saved for retirement as you'd like. Don't panic. You still could have several years left to accumulate money in your plan account. Increasing the amount you contribute by even a small amount potentially can have a big impact on your account value at retirement. The more money you save now, the better off you're likely to be later on. And the sooner you start saving more for retirement, the more time your money will have to benefit from potential compounding.

### Put Your Plan to Work

It's easy to save more for your future. Once you decide to increase your contribution amount, that money will be automatically deducted from your paycheck each pay period and put into your plan account where you won't be tempted to spend it on anything else.



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Consider maintaining a portion of your portfolio in stock investments because of their growth potential.<sup>2</sup> Though the stock market can be volatile over the short term, stocks have historically produced higher long-term returns than the other major asset classes. (Past performance is no guarantee of future results.) When you are in your mid-career years, you still may have several years left before you plan to retire to recover from any market downturns that occur.

Your situation is unique, so be sure to consult a professional before taking action.

## Boost Your Balance

Increasing contributions now may mean more money at retirement.

	Saving at Same Rate	Increased Saving Rate
Account Value at Age 40	\$50,000	\$50,000
Average Annual Total Return	7%	7%
Monthly Amount Contributed from Age 40 to 65	\$100	\$250
Account Value at Age 65	\$367,278	\$488,789

*This is a hypothetical example used for illustrative purposes only. It is not representative of any investment vehicle. It assumes monthly compounding. Your investment results will be different. Tax-deferred amounts accumulated in the plan are taxable on withdrawal, unless they represent qualified Roth distributions.*

Source: DST

## 4 Reasons it Pays to Make Consistent 401(k) Contributions

One of the many benefits of 401(k) plans is that consistency is built in; there is no need for participants to decide month by month how much to contribute or how to invest. A recent study from the Employee Benefit Research Institution (EBRI) and Investment Company Institute (ICI) demonstrates how this consistency pays off. Researchers analyzed a sample of 8.8 million of 401(k) participants with accounts at year-end 2010 and 2014 in the EBRI/ICI 401(k) database.

They found that participants who contributed consistently to their accounts:

1. **Accumulated significant account balances:** At year-end 2014, 19.5% of the consistent group had account balances of more than \$200,000, while another 16.1% had between \$100,000 and \$200,000.
2. **Had higher-than-average balances:** The average account balance for consistent participants was 1.7 times higher than all database participants at year-end 2014.
3. **Experienced noteworthy annual growth:** Overall, the average account balance increased at a compound annual average growth rate of 15.5% during the four-year period, to \$130,493 at year-end 2014.
4. **Reaped the benefits of healthy market performance:** The U.S. stock market trended up during the period studied, giving a lift to investors with higher equity allocations. On average at year-end 2014, about two-thirds of participants' assets were invested in equities.

The full analysis is available online at

<http://tinyurl.com/401kstudy>.

2. Stock investing involves a high degree of risk. Stock prices fluctuate and investors may lose money.

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## Social Security: The When To Claim Game

Jack stopped working at age 62 because of chronic health issues. Celia retired at age 66 so she could travel and pursue hobbies. And Pat's not ready to retire yet and plans to work until at least age 70. Their strategies for claiming Social Security benefits may be different because of their different situations.

Retirement may be an adventure, but making a decision about when to collect Social Security shouldn't be. That's why it's important to understand your options for claiming benefits well in advance of your retirement date.

### In a Nutshell

Although you can begin taking benefits as early as age 62, the longer you delay, the greater your benefit will be. While you're entitled to receive full benefits at your full retirement age (FRA),<sup>3</sup> for every year up to age 70 that you delay taking benefits, your benefit amount will increase by 8%. And that's not counting any cost-of-living increases you might get.

If receiving a higher benefit amount were the only factor to consider, everyone might wait until age 70 to collect. But several other factors may come into play that can make the decision more complex—and more personal.

## Assessing Your Health

Your health at retirement and your family's history of longevity could be important considerations when deciding whether to collect or delay benefits. Remember, though, if you begin collecting Social Security benefits at age 62—or at any time before you reach your FRA—your monthly benefit will be permanently reduced.

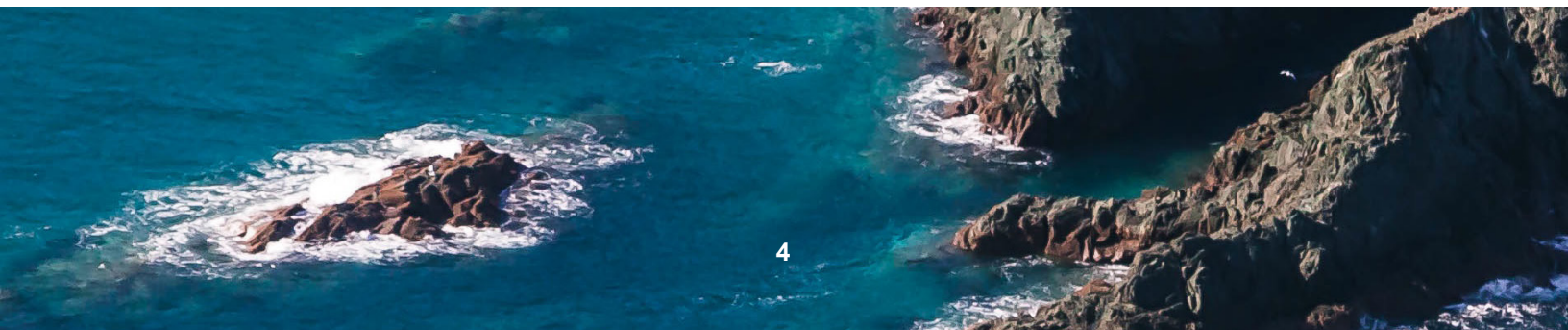
## Factoring in Finances

The amount of money you have saved and your plans for retirement will also figure into the equation. If you don't have sufficient income from other sources, delaying the start of your benefits is probably not an option. The same may be true if your vision of retirement includes travel or expensive hobbies. Even if you don't need the money for living expenses, taking the benefit and investing it is an alternative to consider. Keep in mind, however, that your benefits will be reduced if your earnings exceed certain limits before you reach your FRA.

## Your “Breakeven Age”

If you're still working or have other assets to draw on, waiting to collect may seem like a smart plan. But there's a drawback. By waiting to claim benefits, you'll need a certain number of years to “catch up” to the amount you would have received if you had begun drawing Social Security at your FRA. This is your “breakeven age”—the age you will be when the two total accumulations are equal and the advantages of having waited to collect begin to kick in. You'll have to live beyond the breakeven age to come out ahead in the total amount of money you receive over your lifetime. So the longer you live, the more you will benefit from the delay in taking benefits.

3. Full retirement age is 66 for individuals born from 1943 through 1954, gradually rising to age 67 for individuals born in 1960 and later.



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## Beyond the Basics

Social Security benefits may be available to spouses, divorced spouses, widows, and widowers. You can learn more about the applicable rules on the Social Security website at [www.ssa.gov](http://www.ssa.gov).

Choosing the best age for claiming benefits can be a complex process. Your financial professional can help you make the choice that will be right for your personal circumstances.



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