In everyone's best interest

EMPLOYEE BENEFIT CONSULTANTS | RETIREMENT PLAN ADMINISTRATORS | REGISTERED INVESTMENT ADVISORS

QUARTERLY INSIGHTS

Second Quarter - 2016

The second quarter of 2016 was another quarter filled with worldwide market uncertainty and big fluctuations in stock market values. In late June the United Kingdom voted to exit the European Union which had a dramatic impact on stocks and bonds. Stocks tumbled for two days and there was a drop in bond yields. However, the market rebounded rather quickly and the second quarter posted a slight gain. The S&P 500 was up 2.46% for the 2nd quarter and is up 3.84% year to date.

For the balance of this newsletter, we will focus on some issues we have touched on before, but are important enough to be revisited. Hopefully you acknowledge that having an income after reaching retirement age is of paramount importance. Knowing that the current average monthly benefit from Social Security is $1,335, there is a need for you to save in order to supplement social security payments. Your 401(k) plan provides that opportunity to save with significant tax savings. If you are committing to contribute to your plan, the question to address is what percentage of your income should be contributed? The answer is dependent upon several factors: retirement age, years to retirement, projected monthly income needs at retirement and what you can afford to save.

What is common among plan participants is a lack of ability to make a reasonable determination of what contribution is required to meet monthly income goals for retirement. The need is increasing because life expectancy is increasing. For males who reach age 65, average life expectancy is 84.3 and for females it is 86.6. Furthermore, one out of every four 65 year olds will live past 90 and one out of every ten past 95.

It can be unequivocally stated that all participants should be at the minimum contributing an amount to optimize their employer's contribution. In addition, your contribution rate should be revisited on a regular basis to consider increases as income grows. Far too many workers never increase their contribution rate and find themselves with an inadequate income level at retirement age.

The benefits of rebalancing your portfolio of investments on a periodic basis should be understood. Studies have shown that rebalancing helps by reducing your risk over time. Once your risk taking propensity is determined and investment selection is aligned with your comfort level for assuming risk, you want to make certain your portfolio remains that way. That means that an annual reallocation of your account balance back to the original allocation percentages is necessary. This procedure forces you to sell high and buy low which helps to maximize returns.

Diversification, which is the use of different types of investments in a portfolio, is another risk-reducing method that should be exercised when making investment selections. There are a wide variety of investment options available to you in your 401(k) plan. Equity funds such as large-cap, mid-cap and small-cap are available as well as fixed income options (Bond funds). Some plans might also have an international fund and a real estate fund. All of these funds are diverse in terms of risk levels and performance expectations.

If you have any questions about your deferral percentage, estimated monthly income in retirement, current allocation, rebalancing your portfolio, or any other aspect of your retirement planning, please contact a financial advisor at BenefitWorks at (717) 273-8441.