

# FINANCIALink®

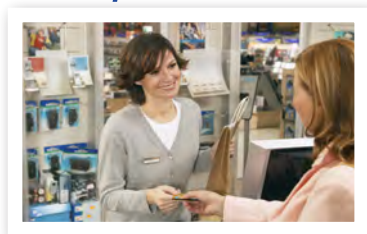
Your Money Management Newsletter

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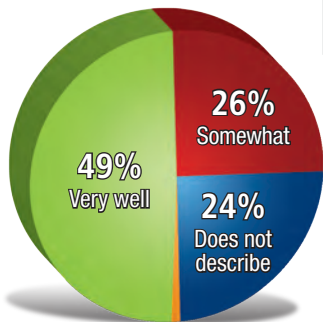
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 CPA, Director

## SnapSHOTS



### PAID IN FULL

Credit-card holders responded this way when asked whether the following statement describes them: "I only put purchases on a credit card if I can pay the bill in full when it comes."



Source: Associated Press, 2011

## Up FRONT

# 49%



For retirement savings tips, visit [myqr4u.com/12345](http://myqr4u.com/12345) or scan this code.

Percentage of American workers who are "somewhat" or "very" confident in having enough money to live comfortably throughout retirement

Source: Employee Benefit Research Institute, 2011



## Quick HITS

**Ninety-four** percent of parents expect their children to go to college.<sup>1</sup>

**The U.S.** economy is more than twice as big as China's economy.<sup>2</sup>

**A dollar bill** circulates for 40 months, on average, up from 18 months two decades ago, largely as a result of better printing technology and lower use of paper currency.<sup>3</sup>

**Only 7%** of baby boomers say they have done an excellent job of managing their savings and investments.<sup>4</sup>

**Violent crime** in the United States dropped 5.5% in 2010, despite predictions that it would rise because of the recession.<sup>5</sup>

1, 3) *Journal of Financial Planning*, July 2011, September 2011

2) International Monetary Fund, 2011

4) Associated Press, March 16, 2011

5) *InvestmentNews*, June 6, 2011

Practical insights for your **FINANCIAL GOALS**

# A Calculated Look at RETIREMENT

Only 42% of workers have completed a retirement-needs calculation, but those who have are more likely to be confident about accumulating the savings they will need than are those who haven't projected their needs.<sup>1</sup> Even so, it's not surprising that many workers decide to save more after doing the math (see chart).

## ANTICIPATING YOUR NEEDS

One common suggestion is that you will need about 80% of your pre-retirement income to maintain your lifestyle in retirement. This estimate considers that your tax burden in retirement may be lower and that a large portion of your income may not be going toward mortgage payments and retirement plan contributions. But 80% may not be enough. Consider the following variables.

**Your savings may need to last longer than you anticipate.** A 65-year-old man has a 50% chance of living to age 85 and a 25% chance

of living to 92. A woman has the same chances of living to 88 and 94, respectively.<sup>2</sup>

**A growing number of retirement-age people have mortgages.** About 35% of households headed by someone age 65 or older have a mortgage, up from 24% just 10 years ago.<sup>3</sup>

**Medical costs are rising.** A couple who retired in 2010 at age 65 would need an estimated \$271,000 in savings to have a 90% probability of being able to pay their medical expenses throughout retirement (assuming median drug expenses). A couple retiring at age 65 in 2020 could need an estimated \$454,000.<sup>4</sup>

**Social Security may not provide as much income as you expect.** One proposed solution for Social Security's well-known financial problems is a reduction in benefits. The further you are from retirement, the more likely it is that you could be affected. By one estimate, typical living expenses for

people age 65 and older rose 73% between 2000 and 2011, yet Social Security benefits increased only 31% during this period.<sup>5</sup>

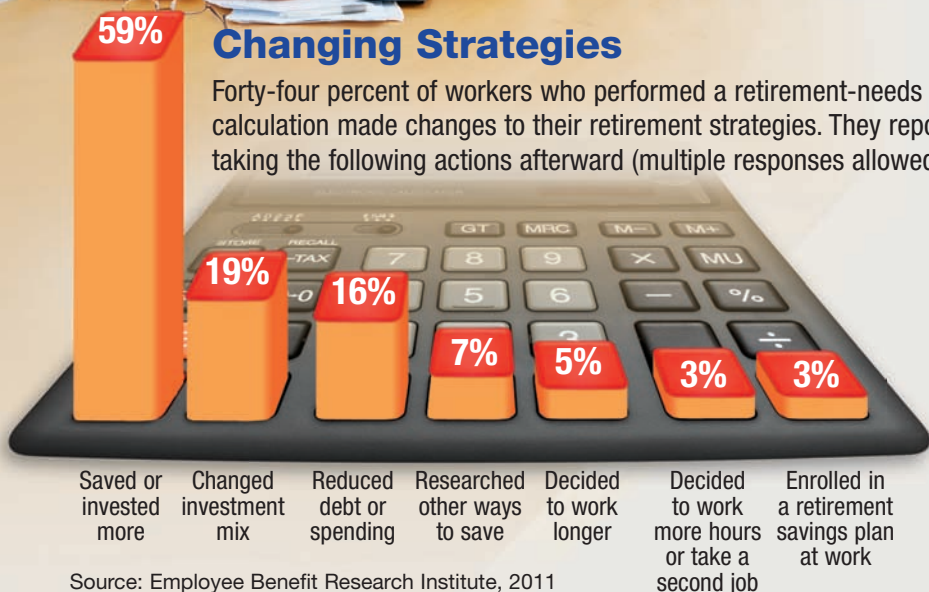
You should also consider the kind of retirement lifestyle you envision. Perhaps you want to travel more, move to a different community, or engage in a new activity. How much would these lifestyle choices cost?

## DECIDING HOW MUCH TO SAVE

After calculating the income you may need, the next step is to determine the savings it would take to help generate that target. Many people underestimate this. For example, 31% of workers believe they need to save \$250,000 or less for retirement.<sup>6</sup> Yet a \$250,000 portfolio earning a hypothetical 5% average annual return would produce an annual income of only \$12,500 without reducing the principal. And don't forget that inflation will most likely reduce the purchasing power of your income over time.

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance described if they were included. Actual results will vary.

Calculating your retirement needs is an important step toward achieving a comfortable retirement. Even if you have completed a calculation in the past, it's wise to update it periodically.



Source: Employee Benefit Research Institute, 2011

1, 4, 6) Employee Benefit Research Institute, 2011, 2010

2) smartmoney.com, March 25, 2011

3) U.S. Census Bureau, 2011, 2001

5) The Senior Citizens League, 2011

# Tracking the Rise of **TARGET-DATE FUNDS**

**T**arget-date funds (also called lifecycle funds) have become increasingly popular in recent years, especially in employer-sponsored retirement plans. More than 75% of 401(k) plans offer this type of fund — often as the default investment — and about one-third of 401(k) investors include target-date funds in their portfolios.<sup>1-2</sup> Target-date funds are also held in IRAs and other types of accounts (see chart).

Many investors may find these funds to be appealing because they offer what appears to be a simple investment strategy. However, they may not be as simple as they seem.

## HOW TARGET-DATE FUNDS WORK

Target-date funds are *hybrid* mutual funds that generally include a mix of asset classes: stocks, bonds, and cash alternatives. The target date is the approximate date when an investor would withdraw money — typically the date when he or she expects to retire. Target-date funds are generally available by date. Thus, an investor expecting to retire in 2030 might choose a 2030 fund.

The further away the target date, the greater the risks the fund usually takes — a strategy based on the idea that investors with longer time horizons may have a greater opportunity to recover from potential losses. As the target date approaches, the fund typically shifts toward a more conservative asset allocation to help conserve the value it may have accumulated.

A common misconception about target-date funds is that different funds with the same date are alike. In fact, they typically won't have the same asset allocation or investment holdings. One study found that funds with a 2020 target date had stock allocations ranging from 48% to 90%.<sup>3</sup> The *turnover rate* of assets and the *glide path* also vary among funds. The glide path is a formula that determines how the asset mix will change over time, before (and sometimes after) reaching the target date.

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

For some investors, target-date funds may offer a helpful approach to allocating assets. Be mindful that it's important to look beyond the target date to determine whether a particular fund is appropriate based on your goals, time horizon, and risk tolerance. Asset allocation does not guarantee against investment loss; it is a method used to help manage investment risk.

## Asset Destination

Percentage of target-date fund assets, by type of account



Source: Investment Company Institute, 2011

*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) Employee Benefit Research Institute, 2010

2) Investment Company Institute, 2011

3) Morningstar, 2010

# GDP: Measuring the Economy

If you've been listening to the news over the past few years, you've probably heard a lot about gross domestic product (GDP) in relation to the Great Recession and the economic recovery. When GDP falls for an extended period, it may signal the beginning of tough economic times. Conversely, a rising GDP may indicate an improving economy and the potential for better times.

Gross domestic product is the total value of goods and services produced in the United States. This includes consumer spending, government spending, business capital investment, and net exports (*the value of exported goods minus the value of imported goods*). You might look at GDP as a speedometer that measures how fast the nation's economic engine is running.

## WHAT GDP TELLS US

The total dollar value of GDP provides perspective on the size of a nation's economy. The United States has the highest GDP in the world — about two and a half times greater than China's, the second-largest national economy.<sup>1</sup>

What matters more for investors, however, is GDP

*growth*. When gross domestic product grows, it may help contribute to higher corporate earnings. Interestingly, research has failed to prove that stock market performance has a positive correlation with GDP growth.<sup>2</sup>

Gross domestic product may also affect interest rates. When GDP growth is slow, the Federal Reserve may keep interest rates low in an effort to stimulate the economy — as it has done since 2008. On the other hand, if GDP rises too quickly, the Fed typically becomes concerned with potential inflation and may raise interest rates in an effort to keep the economy from growing too fast.

Keeping an eye on GDP may be helpful in gauging the overall health of the economy. Yet it

## A History of Growth

GDP in trillions of 2005 dollars



Source: Bureau of Economic Analysis, 2011

could be unwise to place too much emphasis on GDP when making investment decisions.

- 1) International Monetary Fund, 2011
- 2) *Financial Times*, January 12, 2010

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*Is your long-term savings strategy on target? We can help calculate the savings you may need to enjoy a comfortable retirement.*

*Mark Reynolds*