Village Bible Church

Financial Peace University

Week #7 Supplement

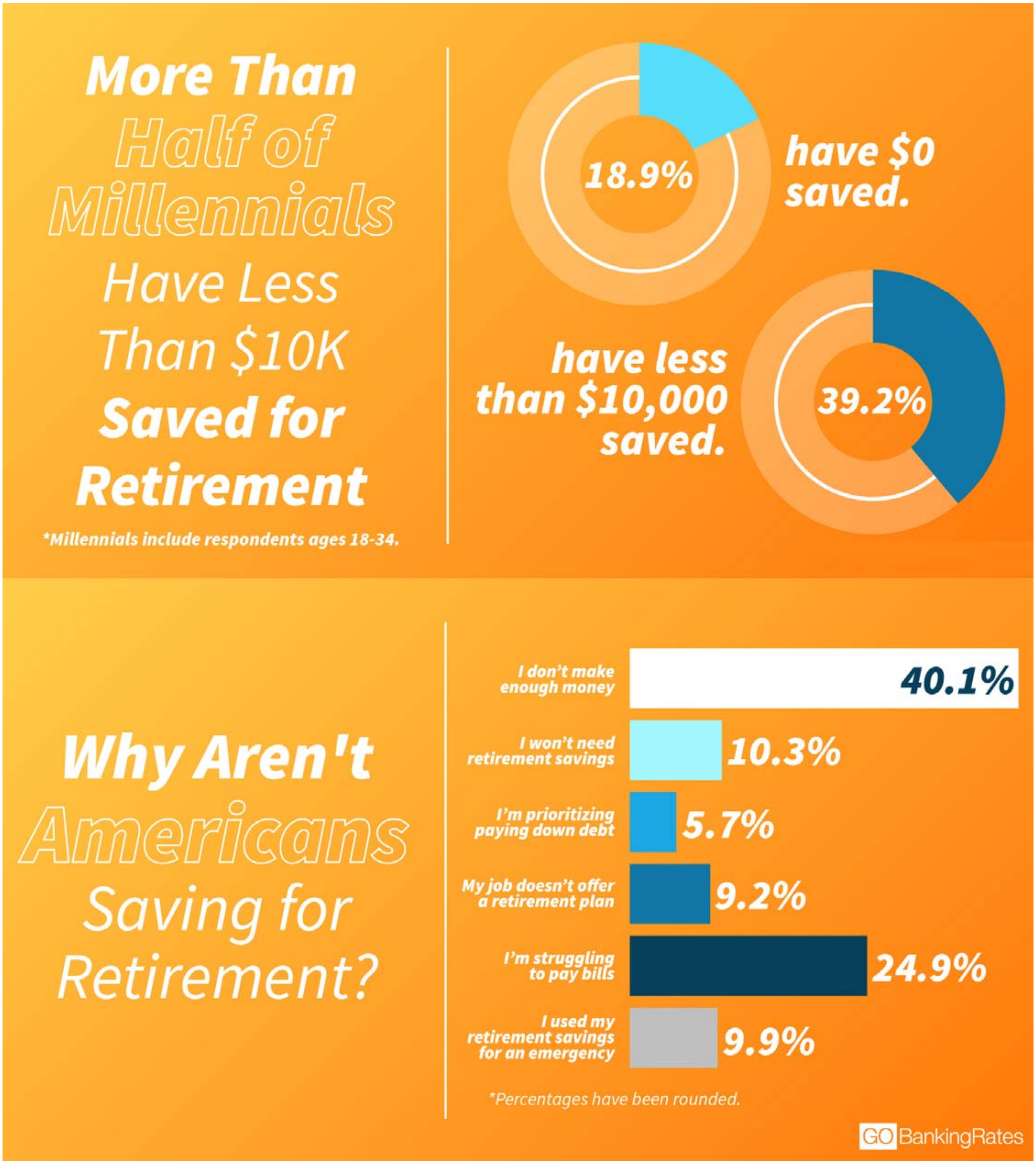
Retirement

Sad Retirement Reality

Even though American's rank in the top 3% of richest people in the world…

42% of Americans have less than $10,000 saved and may retire broke.

At this rate, retirement is more of a fantasy than a reality for many people in this country.



The personal finance site, GoBankingRates, polled more than 1,000 adults online in February, 2018.

The No. 1 mistake Americans make when saving for retirement

https://www.cnbc.com/2018/01/30/the-no-1-retirement-savings-mistake-is-skipping-the-401k-match.html

When it comes to retirement savings, Americans are falling short. According to a report from the Economic Policy Institute, the median retirement savings of all working-age families, which the EPI defines as those between 32 and 61 years old, is just $5,000.

But even many of those who contribute to a retirement account could be losing out on hundreds per year, and thousands of dollars over time. The oversight: Not taking full advantage of an employer's 401(k) match.

It's the first thing that comes to mind for Eric Roberge, a CFP and founder of Beyond Your Hammock, when asked what he sees as the biggest mistake people make when saving for retirement.

"My first response is not receiving the employer's matching contribution," he tells CNBC Make It. "If you have a 401(k) at work and you choose to open a Roth IRA, and your employer's willing to give you 100 percent of the first 5 percent that you put in your 401(k), you're missing out on free money."

Here's what he means: When companies offer a 401(k) match, they agree to kick in whatever contribution you make up to a certain amount, so if your employer offers a 5 percent match and you contribute 5 percent of your salary, the equivalent of 10 percent of your salary goes into the tax-advantaged account.

Yet one in five people don't contribute enough to get the full match, according to data from benefits administrator Alight Solutions. Fidelity came up with the same number, CNBC reported in 2017.

Another way to look at the match is as though you're receiving a raise. But you'll only see your employer's money if you pledge some of your own first.

Almost 75 percent of companies across all industries offer some kind of match, Aimee DeCamillo, head of T. Rowe Price Retirement Plan Services, told the Washington Post in 2017. The paper notes that companies have been increasing their matches lately because they help with employee retention and "boost morale."

If your company doesn't offer a match, don't sweat it: Other retirement savings vehicles can be useful tools as well. Both Roth IRAs and traditional IRAs offer tax benefits and should be considered as part of a diversified savings plan. You can read up on the differences between various retirement accounts here.

Another mistake Roberge sees people make when saving for retirement is trying to get too complex too fast. "If you don't have a lot of investment knowledge, don't try to be a stock picker or try to build a bunch of mutual funds into your portfolio," he says.

As your investments, and your salary, grow, you could begin to consider other investments, but an employer-sponsored 401(k) plan, if you have one, is a good place to start. "You can diversify later on, but until you get more money saved, it's not really of concern."

Tead up on more basics of investing. And don't be afraid to talk to a trusted financial advisor if you get overwhelmed.

Everything you need to know about retirement savings accounts

https://www.cnbc.com/2017/08/09/definitive-guide-to-retirement-savings-accounts.html

When it comes to savings goals, retirement is probably the largest one you'll face in terms of how much money you need to save to make it possible.

Experts generally agree that, in order to retire comfortably, you'll want to work your way up to setting aside 10 to 15 percent of your pre-tax income. That said, everyone's situation is unique. To help you figure out the right amount for you, consult a retirement calculator.

Once you get in the habit of setting aside a portion of your paycheck for your future, where should you stash your savings? CNBC Make It spoke with Nick Holeman, certified financial planner at Betterment, who breaks down all of your options.

Fund a 401(k)

For most people, contributing to an employer-sponsored 401(k) plan is the simplest way to start saving for retirement. A 401(k) is an effective vehicle for a few reasons:

1. It offers large tax advantages: contributions are made pre-tax, so the more you contribute, the more you reduce your taxable income and, in turn, your tax bill
2. The money is automatically taken from your paycheck before you have the chance to spend it
3. Often, companies offer a match

"401(k)'s are especially great if they have a match," says Holeman. "That's something that you won't be able to get from an IRA (individual retirement account), so if you have that, take advantage of it."

The way it works is, your company will match whatever contribution you put towards your 401(k) up to a certain amount. For example, if you choose to put four percent of your salary into your account, your employer will put that same amount in as well, in effect doubling your contribution. It's essentially free money, says Holeman.

Another pro: 401(k)'s have higher contribution limits than IRAs. The contribution limit for 2017 is $18,000 for workers under age 50 and $24,000 for people age 50 or older.

Holeman does note that, "sometimes 401(k)'s have higher fees," so you'll want to understand those costs upfront. "The fees tend to be higher because there's more compliance paperwork associated with 401(k)'s, like anti-discrimination amongst the company. Whereas if you open up an IRA, it's just your account, so there's less paperwork, which generally means lower fees."

Fund a traditional IRA

Not all companies offer a 401(k) plan. If that's the case for you, there are other accounts designed specifically for retirement, such as a traditional IRA.

Like a 401(k) plan, IRAs also offer tax breaks, says Holeman: "With a traditional IRA, you contribute pre-tax dollars and let that money grow tax-deferred over time. You'll pay taxes on your contributions and investment gains only when you withdraw the money, which you can do starting at age 59½. If you withdraw before then, you'll have to pay a penalty fee."

The maximum yearly contribution is $5,500, or $6,500 for people age 50 or older.

Fund a Roth IRA

With a Roth IRA, contributions are taxed when they're made, so you can withdraw the contributions and earnings tax-free once you reach age 59½.

Note that in order to contribute to a Roth IRA, there's an income cap, which the IRS sets each year based on modified adjusted gross income. This year, a single person with a MAGI of $133,000 or more and a married couple making more than $196,000 cannot directly contribute to a Roth.

Like a traditional IRA, there's also a contribution limit: $5,500 a year, or $6,500 for people age 50 or older.

Should you choose a traditional or a Roth IRA?

"The differences have nothing to do with the risk that you take or the investment choices you have," says Holeman. "The only difference between a traditional and Roth is from the tax perspective. You get to pick when you pay your taxes."

Before choosing, look at your tax bracket, he says. Do you think you're in a higher tax bracket now than you will be when you retire, or do you anticipate jumping a bracket or two by retirement age?

If you're earning more now, you might want to go with a traditional IRA, since you'll be paying taxes down the road. If you expect to earn more in the future, a Roth might be the better option, since you pay taxes today.

"You can also do half in a traditional and half in a Roth," says Holeman. "A lot of people choose to do that because it's very difficult to guess what taxes will be in the future. Especially if you're young, you could be trying to predict taxes 20, 30, or 40 years into the future, so a lot of people choose to do half and half to hedge their bets."

Holeman also notes that, "just like an IRA, a 401(k) can have a traditional and a Roth option. Again, the difference is just when you pay the taxes."

Fund a health savings account (HSA)

While health savings accounts aren't designed specifically for retirement, they can be a powerful retirement-savings tool. In fact, depending on your situation, some financial planners advise maximizing contributions to your HSA even before maxing out your 401(k) plan.

With an HSA, you can put pre-tax money towards medical costs to be used whenever you want. There's no "use-it-or-lose-it" rule: Any unused funds will roll over year to year.

The main requirement for opening an HSA is having a high-deductible health care plan (HDHP), one that offers a lower health insurance premium and a high deductible. This is a good option for those who are generally healthy and don't have to go to the doctor's office or hospital that often, Holeman notes: "If you are on medications, have a chronic illness or might be going to the doctor often, then having a high-deductible will probably be very expensive for you."

The HSA contribution limit is $3,400 per year if you're single, and $6,750 per year if you have a family, plus an additional $1,000 if you're over 55 years old.

"It's less money that you can put in compared to other accounts," says Holeman, "so this alone is not going to be nearly enough for you to save for your retirement, but it can be a nice addition to your normal savings."

You don't have to use a retirement account at all

"These types of accounts mentioned have some nice tax benefits, so they should be where you start," Holeman says, "but they have some restrictions on them," such as contribution limits and when you can withdraw the money.

"For someone who wants a little more flexibility or is thinking about retiring early, it might make sense to save money outside of these retirement accounts, in a normal investment account. You don't get as many tax benefits, but you have a lot more flexibility: There's no age restrictions on pulling the money out and there's no contribution limit."

You can research low-cost index funds, which investing legend Warren Buffett recommends. You can store money in a high-yield savings account or consider robo-advisors. Just be sure to mark these accounts for retirement if that's what you intend to use them for.

Ultimately, it's smart to consider more than one retirement savings vehicle, says Holeman: "Having multiple types of accounts, even though it might seem a little scary, in a lot of cases makes a lot of sense and can be extremely beneficial."

At the end of the day however, what's more important than choosing what vehicle to use is that you start saving now.

RETIRE WELL

Millennials, this retirement hack is for you

https://www.cnbc.com/2018/01/26/roth-iras-are-a-retirement-hack-millennials-will-love.html

While Roth IRAs are not new, they are worth a second look following passage of the Tax Cuts and Jobs Act.

Roth IRA contributions are taxed up front and can be withdrawn at any time for any reason, penalty free.

With the new tax law, there's one retirement tool that's never looked better: The Roth IRA.

While Roths are not new, they are worth a second look following passage of the Tax Cuts and Jobs Act — especially for those in the gig economy, without an employer-sponsored 401(k) plan. These workers are likely in a lower tax bracket, and have the great advantage of time (especially the young).

Interest in Roth IRAs is gaining steam among those who want to take advantage of their current lower tax rate, said Craig Copeland, a senior research associate at the Employee Benefit Research Institute, an independent organization that provides research on employee benefits.

One of the key differences between traditional IRAs and Roth IRAs is the tax timeline. Contributions to a Roth IRA are taxed up front. Savers under the age of 50 can make after-tax contributions up to $5,500 a year, and then take tax-free withdrawals in retirement.

For millennials, that's a big perk over a regular IRA, where there are no taxes on contributions until money is withdrawn.

"In theory, you are in a lower tax bracket now than you will be later in life," said Katharine Perry, a certified financial planner at Fort Pitt Capital Group, a wealth management firm in Pittsburgh, Pennsylvania.

(One caveat: Contributions to a Roth do have income limits, although the threshold is high. For 2018, the income phase-out range is $120,000 to $135,000 for singles and $189,000 to $199,000 for married couples who file jointly.)

"Even just putting $2,000 in a Roth IRA could yield long-term benefits," said certified financial planner Sophia Bera, the founder of financial advisory firm Gen Y Planning. "Two decades of compound interest will totally work in their favor."

"The Roth IRA is a tax-sheltered account so you can participate in the market without the overlying tax consequences of your trades."

In other words, a just-right retirement tool even Gen Y can get behind.

Try the FPU Investing Calculator

to get an idea of what your savings could be worth.

http://tiny.cc/fpuinvest

Investing Calculator

Come up with a plan to invest for your future.

Enter your starting balance	$ 10000
What is the annual rate of return?	8 %
How much do you plan to contribute monthly?	$ 400
How many years do you plan to contribute?	20 years
How much will this investment be worth in ...	30 years

*Assumes monthly compounding

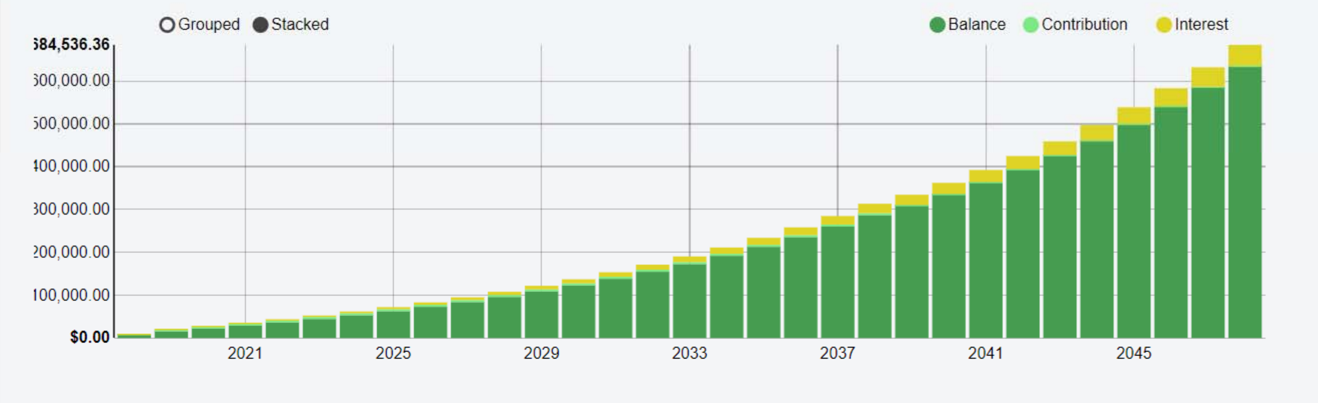
Show Results

30-YEAR VALUE:

$635,808.89

TOTAL INTEREST	TOTAL CONTRIBUTIONS
$529,808.89	$96,000.00

Bar Graph | Pie Chart | Tabular Data



What if I gave up:

Nothing | Coffee | Restaurants | Pizza | Soda | Lunch

Can I really expect a 12% return?

When Dave says you can expect to make a 12% return on your investments, he's using a real number that's based on the historical average annual return of the S&P 500 which has indeed been 12%. (The S&P 500 gauges the performance of the stocks of the 500 largest, most stable companies in the New York Stock Exchange—it's often considered the most accurate measure of the stock market as a whole.)

However, **a better measurement is the compound annual growth rate** (also known as the annualized return). This is the actual rate of return someone's investments will grow and **is about 10%**.

- For the last 12 months (2017), the S&P's returned 21.93%
- For the last 5 years (2013-2017), the S&P's average is 16.28% (15.82% annualized)
- For the last 10 years (2008-2017), the S&P's average is 10.41% (8.49% annualized)
- For the last 20 years (1998-2017), the S&P's average is 8.81% (7.15% annualized)
- For the last 30 years (1988-2017), the S&P's average is 12.20% (10.72% annualized)

Do the research yourself: www.moneychimp.com/features/market_cagr.htm

The Key = Start Investing 15% Soon!

Will your investments make 8%? 10% 12? The reality is that compound interest is pretty amazing at any of these levels.

The key is that you start investing 15% of your gross income as soon you can make it through Baby Steps 1, 2 & 3 – and do it for the long haul.

Get Help

Seriously consider working with a trustworthy investment professional who can help you find the right mix of investments. But the value of a professional doesn't end there.

All investments will have ups and downs, and the downs are scary times for investors. Many react by pulling their money out of their investments—that's exactly what millions of investors did as the market plunged in 2008. But that only made their losses permanent. If they'd stuck with their investments, like Dave advises, their value would have risen along with the stock market over the next two years. This is yet another value of a professional—they can help you keep your cool in tough times and focus on the long term.

In fact, increasing your investments during down markets may help drive total return on investment in your portfolio. It's important not to be scared by the short-term, or to chase performance spikes. Remember, investing is a marathon—it takes endurance, patience, and willpower, but it will pay off in the end.

Warren Buffett says index funds make the best retirement sense

Trent Gillies, 14 May 2017, CNBC.com

If you're looking for a simple plan to build your retirement savings, one of the world's most successful stock market investors has some clear advice.

"Consistently buy an S&P 500 low-cost index fund," Warren Buffett told CNBC's On The Money in an interview recently. "I think it's the thing that makes the most sense practically all of the time."

And he suggests staying the course, despite market fluctuations. "Keep buying it through thick and thin, and especially through thin," the chairman and CEO of Berkshire Hathaway said with a laugh.

On Friday, stocks dipped on mixed economic data and poor results from major retailers. Buffett suggested investors should take gloomy news with a grain of salt, however.

"The temptation when you see bad headlines in newspapers is to say, well, maybe I should skip a year or something. Just keep buying," he said. "American business is going to do fine over time, so you know the investment universe is going to do very well."

As proof of the record of long term growth, the "Oracle of Omaha" remarked that the Dow Jones Industrial Average "went from 66 to 11,497 in one century," recalling the index's exact close at the end of 1999.

"And since that century has ended it's more or less doubled again," Buffett added. Last week, the Dow closed just shy of 21,000.

Don't be a stock picker

The question remains, which shares should investors buy exactly? Buffett says an index fund is a way to avoid the risk of picking individual stocks.

"The trick is not to pick the right company, the trick is to essentially buy all the big companies through the S&P 500 and to do it consistently and to do it in a very, very low cost way," he added.

Buffett points to the fee savings built into low-cost index funds. The largest such S&P 500 fund, Vanguard's 500 Index Fund, boasts expense ratios of less than a percentage point.

"Costs really matter in investments," said Buffett, who in the past has taken aim at costly funds. "If returns are going to be seven or eight percent and you're paying one percent for fees that makes an enormous difference in how much money you're going to have in retirement."

He added that investors can keep more of their retirement savings by cutting investment costs, by reducing management fees or commissions charged by financial advisors.

"Just remember, the person you're talking to, your fees are their income," the billionaire said.

"And it leaves your pocket and goes to them and you'd better get something for it. And you really don't get it in investment management," he said. "The record shows that the unmanaged index fund is going to do quite well over time and active investment as a group can't beat it."

Most employer-run 401(k) retirement plans offer multiple mutual funds with different assets strategies, but Buffett warned against going with those options, saying "you'll do very well with an S&P index."

He added: "And don't let them talk to you about other index funds…and say you know, you have to have foreign or maybe you can pick a better industry. You'll almost always find it comes with bigger fees."

He conceded that luck can play a role. "Sure, some are going to have better than average just but the fact that if you flip a coin, some are going to call heads and some are going to call tails. And one or the other will be right at that time."

Still, the Oracle of Omaha warned that "you do not want to ever get the impression that you can pick stocks" and that "can enable you to have an edge. It just doesn't work that way."

The Secret to Saving Money

Most people don't save like they know they need to. Why? Because they have competing goals. The goal to save isn't a high enough priority to delay that purchase of the pizza, DVD player, new computer or china cabinet. So they purchase, buy, and consume all their dollars away or, worse yet, go into debt to buy these things.

That debt brings monthly payments that control our paychecks and make us say things like, "We just don't make enough to save any money!"" Wrong, wrong, wrong! We do make enough to save money. We just aren't willing to quit spoiling ourselves with our little projects or pleasures to have enough left to save. It doesn't matter what you make—you can save money. It just has to become a big enough priority.

If a doctor told you that your child was dying and could only be saved with a $15,000 operation that your insurance would not cover and could only be performed nine months from today, could you save $15,000? Yes! Of course you could! You would sell things, stop any spending that wasn't required to survive, and take two extra jobs. For that short nine months, you would become a saving madman. You would give up virtually anything to accomplish that $15,000 goal. Saving would become a priority.

The secret to saving money is to make it a priority, and that is done only when you find some healthy anger or fear and use those emotions to guide your personal decisions. Then ask yourself: Which bill is the most important? After tithing, whom should I pay first this month? The answer is you!

Advertisers and marketers are great at affecting our emotions and making us see our wants as needs. It is time for this to stop! Emotions make great servants, but they are lousy masters. No matter how educated or sophisticated we are, if we're not saving then we're being ruled by emotions and not harnessing them.

So whether you are saving for college tuition, a vacation, new school clothes for the kids or anything else, start saving now! It's never too late!

https://www.fpucentral.com/articles/the-secret-to-saving-money

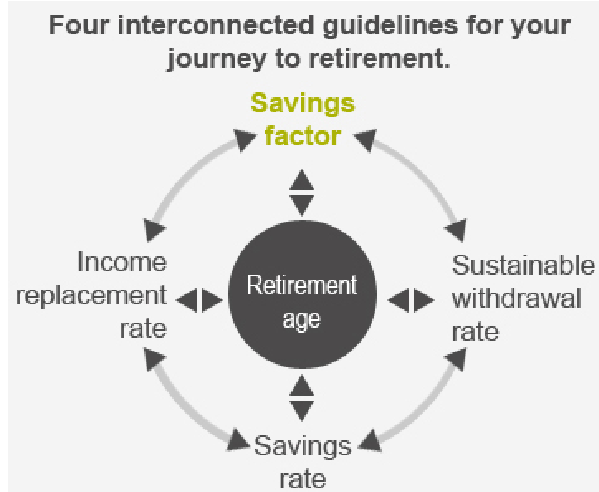
How much do I need to save for retirement?

Savings factor: Aim to save at least 1x your income at 30, 3x at 40, 7x at 55, 10x at 67.

FIDELITY VIEWPOINTS – 06/05/2017

You know that saving is important. After all, you want to enjoy your someday—your retirement. Be free from the 9-to-5, and do what you want to do—when you want.

Living your someday the way you want means having a roadmap now—including how much to have saved by the time you retire, as well as different points along the way. That's why we did the analysis and came up with four key metrics: a yearly savings rate, a savings factor, an income replacement rate, and a potentially sustainable withdrawal rate to help you create your retirement roadmap. (See chart.)



They are all interconnected, so it is important to keep each in mind as you save for retirement, and understand how they work together. For instance, if you want to retire earlier than 67, your savings rate and how much you need to save would likely increase. Retire later and they would likely decrease.

The savings factor explained

Our savings factors can help you track where you are on your journey to retirement. Simply multiply your income at certain ages by your savings factor to see how much you should aim to have saved by that point. Then see how your savings match up.

"Setting up a savings goal linked to your income can help simplify your planning, and help you determine if you are on track throughout your working life," says Ken Hevert, Fidelity senior vice president of retirement. "Having a guidepost is particularly important in today's workplace, where job switching, and life's inevitable twists and turns, can get in the way of saving for retirement."

Our savings factor rule of thumb is based on some key assumptions: You start saving a total of 15% of your income every year starting at age 25, invest more than 50% of your savings in stocks on average over your lifetime, retire at age 67, and plan to maintain your preretirement lifestyle.

Of course, your situation may be different. You may have started saving later, saved more or less, plan to retire earlier or later, expect to spend more or less in retirement, or have a substantial pension. These will all impact your personal savings factors, which is what really counts.

"Think about these savings factors as milestones along the way," says Adheesh Sharma, director of financial solutions for Fidelity Strategic Advisers, Inc. "And don't worry if you are not always on track. The later milestones are the most important, and there are things you can do along the way to catch up. Of course, the earlier you take action the better."

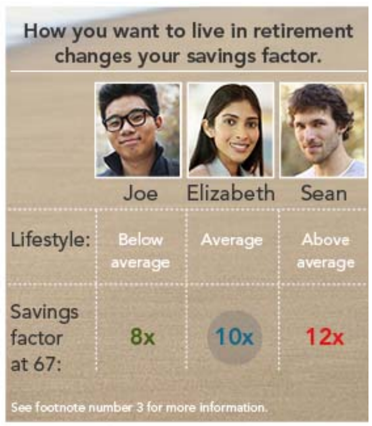
Two key assumptions—when you plan to retire and what kind of lifestyle you want to live in retirement:

1. When you'll retire

What age you plan to retire can have a big impact on how much savings you will need, and your milestones along the way. The longer you can postpone retirement, the lower your savings factor needs to be.

Consider some hypothetical examples (see graphic below left). Max plans to delay retirement until age 70, so he will need to have saved 8x his final income to sustain his preretirement lifestyle. Amy wants to retire at age 67, so she will need to have saved 10x her preretirement income. John plans to retire at age 65, so he would need to have saved at least 12x of his preretirement income.

Of course, you can't always choose when you retire—health and job availability may be out of your control. But one thing is clear: Working longer will make it easier to reach your savings goals.



http://tiny.cc/fpuretire

2. How you want to live in retirement

In other words, do you expect your expenses to go down when you retire? We call that a below average lifestyle. Or will you spend as much as you do now—or more? That's average. If you expect your expenses will be more than they are now, that's above average.

Let's look at some hypothetical examples (see graphic above, right). Joe is planning to pay off his mortgage and expects his expenses to be a lot less in retirement. He is a homebody. He expects that he will live the same way when he is in retirement. His savings factor might be closer to 8x than 10x. Elizabeth is planning to retire at age 67 and her goal is to maintain her lifestyle in retirement, so her savings factor is 10x. Sean works long hours and has four children to raise and educate. He wants to do what he wants, when he wants, in retirement, including travel a lot. It makes sense for him to aim to save more. His savings factor is 12x at age 67.

How to help reach the milestones

Knowing your savings factors can give you a baseline savings goal and milestones along the way to see how you are doing. How to get there is another piece of the puzzle. If you're under age 40, the simple answer is to save more and invest for growth through a diversified investment mix. Of course, stocks come with more ups and downs than bonds or cash, so you need to be comfortable with those risks. If you're over 40, the answer may be a combination of increased savings, reduced spending, and working longer, if possible.

"Don't be discouraged if you aren't at your nearest milestone—there are ways to catch up to future milestones through planning and saving," says Sharma. "The key is to take action."