THE H GROUP, INC. | SALEM

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# Financial Perspective

## Will Maximizing your Retirement Plan Contributions be Enough?

A lawyer in her mid-40's recently asked if making the maximum contributions into her firm's 401-k plan would be sufficient to enable her to retire in 20 years. We gave her our favorite answer (a favorite of many other professionals as well) which was "that depends."

To get a more definitive answer, you need to consider the six drivers that determine how much in financial assets you might need for a secure retirement. Ron discusses these drivers and the steps used to calculate them in more detail in his book, *The Confident Retirement Journey—Your Personal & Financial Road Map.* The companion website has tables to help you with the calculations, but here are the drivers and why we said "that depends."

DRIVER 1

### Lifestyle Retirement Expenses

There is no right or wrong amount of retirement expenses, providing that you have enough sources of income to support your particular lifestyle. Calculating what that number might be by the time you retire is not as easy as it seems, but it starts with examining your current expenses and making adjustments.

DRIVER 2

### Years to Retirement

It may sound obvious, but the more time between now and your projected retirement, the more time you have to accumulate retirement funds. Take a look at this table, which shows contributing today's $17,500 maximum voluntary 401-k contribution at varying ages. Those age 50 and over can contribute an additional $5,500 as a "catch-up" to make up for the earlier years of perhaps paying off student loans, starting a family, buying a home, etc.

DRIVER 3

### Inflation

As you can see, the sooner you start, the more you have; however, inflation diminishes your purchasing power. The "Rule of 72," can give you a rough indication of what your nest egg will truly purchase. Simply divide the assumed inflation rate into 72, and that will give you the number of years it will take to cut your purchasing power in half. **Thus, at a 3% inflation rate, $1,000,000 will only be worth $500,000 in 24 years. At 4% it takes only 18 years.**

**Voluntary Retirement Plan Contributions of $17,500***

| Years from Retirement | Account Value at 5% Assumed Return | Account Value at 7% Assumed Return |
|---|---|---|
| 40 | $2,113,996 | $3,493,614 |
| 35 | 1,580,605 | 2,419,145 |
| 30 | 1,162679 | 1,653,063 |
| 25 | 835,224 | 1,106,858 |
| 20 | 578,654 | 717,421 |
| 15* | 496,306 | 557,967 |
| 10* | 298,291 | 317,778 |
| 5* | 127,089 | 132,266 |

**Assumes additional $5,500 per year catch-up for those just starting to contribute at age 50. All returns are hypothetical.*

DRIVER 4

### Social Security and Pension Income

What you receive in Social Security benefits reduces the amount you would need to withdraw from your retirement nest egg. If you are fortunate to have a defined benefit pension plan (such as PERS), those benefits also reduce the amount of assets you will need to have at retirement. If you don't have a defined benefit plan, perhaps your employer (it could be you if you are self-employed) also matches or makes profit-sharing contributions. That can help a lot. The most that can be contributed to a defined contribution plans from both

*Continued on page 3*

Ron Kelemen, CFP® • Mary Way, CPA, CFP®
Larry Hanslits, CFP® • Brenna Baucum

## IN THIS ISSUE

*Special 23rd Anniversary Edition*


- Planning for Millennials–It's Complicated!
- Bad Swan or Good Swan?
- The Team Advantage™
- MyRA or Roth IRA?
- Quotes from Recent Blogs
- Team Update


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# Planning for Millennials—It's Complicated!

Much has been written about the so-called Millennial Generation, sometimes called Gen Y. Opinions differ on who is a member of this cohort, but for the sake of this article, we'll consider members as those born between 1978 and 2003. That means the youngest Millennial is about 21 and the oldest is about 36. The Pew Research Center estimates that there are about 80 million of them.

**Because there are so many of them, the millennial generation is diverse and defies stereotyping. Comparing twenty-year olds with thirty-six-year olds doesn't make sense for any generation**. That said, they all grew up in an era of rapid technological change and social media. Many came of age during huge global market downturns, are burdened (if not crippled) by student loan debt, and feel too young to even worry about retirement in the first place.

## Millennial Concerns

We work primarily with Baby Boomers, those born before 1946, and some from Generation X, but now the Millennials are starting to seek advice. While the concerns vary and are often in a state of flux, here are just a few of their planning issues. **They can be summed up with two words: competing priorities**.


It's more complicated than it looks. The topic of purchasing a home isn't necessarily about how to finance it, but whether or not it might hinder career growth in the current job market. Family issues can revolve around two spousal incomes, day care, or paying for private school. Retirement funding and estate planning are often the last things on their minds, as it was for just about anybody who can remember back to that age.

## Baby Boomer Concerns

In some ways, planning for Baby Boomers is relatively easy. For many of them, the big financial challenges in life, such as getting established in a career, buying a home, educating their children, and saving for retirement are behind them, or well under control. **Their main focus is retirement driven.**


Millennials eventually will have those challenges, and they will likely be more daunting than they are for today's Boomers and current retirees. For now they need a game plan to juggle their many priorities that have different time horizons.

**If you are a Millennial, or the parent or grandparent of one, what do you think are the challenges? Do you have specific questions? If so, please send us an email at salem@thehgroup.com. We will post them and our answers on our regular blog.**

# A Big Shout-Out

Few things in life are quite as nice as a celebration or party in the dead of winter. The night before Groundhog Day, Team Salem and spouses enjoyed a delightful six-course Italian dinner, paired with seven wines at Grand Vines Wine Shop and Bistro in Salem. The event was the result of an oral auction last spring at the Rotary Club of Salem's annual fundraiser, A big shout-out goes to the Rotarians who had made this event possible with their time, talent, and treasure. Next time, we will bid early and often!

# Bad Swan or Good Swan?

Nassim Taleb's book, *The Black Swan*, popularized the concept of black swan events, especially since his book was published just before the 2008 financial crisis. A black swan is a rare and unexpected event with massive and lasting impact. They are almost always followed by those who, with the benefit of hindsight, say the event could have been predicted.

Black swan events typically have a negative, almost fearful, connotation to them. The Black Death, the sinking of the Titanic, The San Francisco earthquake, World War I, the 1998 Long Term Capital Default, 9-11, Hurricane Katrina, the 2008 global financial crisis, the 2011 Japanese tsunami, and the Arab uprising are all black swans with negative consequences.

**However, not all black swans are negative. In fact, many black swan events have been beneficial.** This February, for example, marks the anniversary of two historical events that changed the world: The Beatles 50th anniversary of performing on the Ed Sullivan Show, and Facebook's 10th birthday. Our culture and our lives haven't been the same since then.

Other recent beneficial black swans could be the fall of the Berlin Wall, medical breakthroughs, the microchip, the Internet, Google, iPhone and iPad, military and GPS devices, and Twitter. These have all had profound positive (and some negative) influences everywhere.

The first of the year always seems to bring prognostications about a "Black Swan" event of one kind or another that could negatively and dramatically change our economy and the financial markets. By definition, however, they are unpredictable. Meanwhile, be open to the more likely possibilities of good black swans, some of which may be the offspring of the positive ones mentioned above.

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## Will Maximizing your Retirement Plan Contributions be Enough?...

*Continued from page 1*

voluntary and employer sources is $52,000 per year, and $57,500 for those who are age 50 and above. Theoretically, you could triple the results in the above table if you are a high income earner and your employer makes the maximum employer contribution.

DRIVER 5

### Longevity

The length of your retirement also matters. If you are in poor health and only have a few years left, you won't need as much as someone who retires at 65 and lives to 95. **Even if you are in poor health, you need to consider the longevity of your spouse, especially if he or she is younger than you. Our rule of thumb is to plan for at least a 30-35 year retirement.**

DRIVER 6

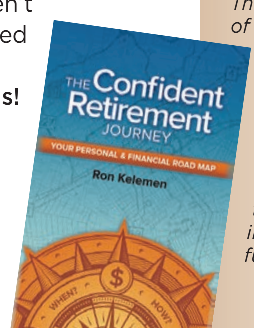
### After-Tax Investment Returns

Take a look at the table again, particularly for those that are 30 to 40 years away from retirement. The extra two percentage points of return make a big difference. If we had used nine percent (which is less than the long-term historic rate of return on the S&P 500), the difference would be even greater.

**Retirement costs are a long-term liability in your future. You might be 20 years away from retirement, but if you are retired for 35 years, you need to develop a 55-year time horizon at the beginning.** Do what the big pension funds do by matching long-term liabilities with long-term investments, rather than "safe" low-yielding vehicles which are more appropriate for near-term needs. Remember, if you aren't keeping up with inflation, your portfolio is subject to the real risk of destroyed purchasing power.

**So, will maximizing your 401-k contributions be enough? That depends! We can better answer that for you with a customized analysis.**

*To learn more, see the worksheets at*
www.ConfidentRetirementJourney.com




## The Team Advantage™

Ron Kelemen, Mary Way, and Larry Hanslits are independent CERTIFIED FINANCIAL PLANNER™ certificants. Together with Investment Advisory Associate Brenna Baucum, they jointly serve their clients as a team with over 80 years of combined experience. They work on a fee-only basis and do not accept any third party compensation or finder's fees. Their practice focuses on wealth planning and investment management for professionals, business owners, and retirees. They are advisory associates of The H Group, Inc., one of the largest independent fee-only registered investment advisory firms in the Northwest with 14 professionals in seven offices with over $550 million under active management.

### About Ron Kelemen, CFP®

In practice since 1981, Ron is the author of *The Confident Retirement Journey,* a financial columnist for local medical and dental societies, and a contributing author of three financial planning reference books. He is frequently quoted in the national press and professional journals. He is active in Rotary and several non-profit organizations.

### About Mary Way, CPA, CFP®

Mary joined the practice in 1995. She is also a non-practicing CPA with 16 years' experience in banking, business, and finance. She is a board member of the Salem Rotary Foundation, and like Ron, a past president of the Willamette Valley Estate Planning Council.

### About Larry Hanslits, CFP®

In practice since 1985, Larry merged his practice with Ron's and Mary's in 2011. He sits on the investment policy committee of The H Group, Inc., provides advanced estate planning case writing services to attorneys nationwide, and is a teacher and a judge for the financial planning scholarship competition at Oregon State University.

### About Brenna Baucum

Brenna joined the practice in 2013. She is a licensed investment advisory associate and is working toward her CFP® certificate. She is a member of the Rotary Club of Salem and an active volunteer for other organizations.

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# Team Update

So much has happened since our last newsletter in early December, that it's hard to list everything. The big news is that Brenna passed her extremely challenging investment advisor exam, which gets tougher every year. We held an all-day retreat in early January and we are very excited about our near and long-term goals. We quickly started following through on the action items, one of which is the disruptive process of getting state-of-the art software for everyone.

**Lani** was blessed with a grandson on Christmas morning, born to son Adam whom she had watched run a 50-mile race in MD three weeks earlier.

**Debbie** took Christmas week off and celebrated her daughter Gretchen's engagement on New Year's Eve. She's already getting involved with planning for the wedding, to be officiated by husband Bob Renggli. They spent President's Day weekend in Cannon Beach.

**Brenna** had a very exciting December. She completed her first half marathon right at her goal pace. A week later, she successfully passed her investment advisor exam. Then, on New Year's Eve, she and her husband Ben celebrated their second anniversary (along with 200 strangers) at the Portland City Grill. Mid-January, Brenna was inducted into the Rotary Club of Salem, and is currently enrolled in the College for Financial Planning, working her way through the first CFP certification module.

**Larry** and Laurie finally moved into their new house in Salem! They listed their Florence property in August 2010. Laurie is busy coordinating the plumber, painter, carpet cleaners and Larry is enjoying a short 10 minute commute to work. He started teaching the OSU Financial Planning class, attended the Portland Estate Planning Council conference and conducted an investment workshop for a local attorney's construction, agriculture, and forestry clients.

**Mary** has been very busy mentoring Brenna, taking care of clients, and making innovations for the Salem Rotary Foundation. She spent Christmas in Bend and made another trip for her grandson's 2nd birthday.

**Ron** kept busy organizing our retreat and its follow through, updating our website, and promoting his book. OSU picked it up as a textbook. In early December he and Kathy went on a two-week bicycle trip in Vietnam with their daughters, followed by a few days in Cambodia. In early January they put Kathy's 89-year old mom in the hospital with pneumonia, then moved her into an independent living facility, and cleaned out years of accumulated stuff from her rental home. Their insights? "We all have way more stuff than we really need!"

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# MyRA or Roth IRA?

President Obama proposed a new retirement savings account at his State of the Union Address January 28. Called the "MyRA" it is designed as starter IRA for workers who are not currently covered by an employer-sponsored retirement plan, such as a 401-k.

They would function similar to a Roth IRA and have government backing like a savings bond. The interest rate would be similar to that of the Government Securities Investment Fund of the Thrift Savings Plan available to Federal employees, which had an annual return of only 1.89% in 2013, and a 10 year average return of 3.39%.

The accounts would be available to workers making less than $191,000 per year. Accounts can be opened for $25, and future additions could be as low as $5. They would be portable if the employee changed jobs, and there would be no tax penalty on withdrawals of the amount invested. This could make it useful as both an emergency fund and a start on a retirement nest egg. Once an account reaches $15,000 in size, the MyRA must be rolled over into a private-sector Roth IRA.

If nothing else, the MyRA is an easy way to get started saving. However, while everyone's situation should be evaluated on a case by case basis and future market performance is not guaranteed, the early information available on the MyRA leads us to believe that younger workers would potentially be better off opening their own Roth IRA and investing their long-term retirement money for growth.

# Quotes from Recent Blogs

*"...Saigon and Hanoi really go big on holiday decorations. Frosty the Snowman, Santa, and even manger scenes with pictures of Ho Chi Minh nearby. Who would-of-thunk 40 years ago?...We walked to a Citibank ATM late at night, then to our hotel room with Jack Daniels in the minibar and a big screen TV playing the Colbert Report...."*

—Ron Kelemen, December 24

*"...The session on planning for Canadian/International Spouses and Assets was quite an eye-opener! We thought we were reasonably up-to-speed on some of these issues, but income and estate tax issues involving our cousins to the north are very complex...."*

—January 15

*"...We've become accustomed to gains. After being up 32%, we call being down 5% "off a cliff..."*

—February 4

*"...This is the time of year when our clients wonder when the tax information for their income tax preparation will arrive...Here's what we know as of February 6...."*

—February 6

These are but a few of our regular posts. Want the whole article with links? Want to review last quarter's update? Want to receive regular and timely commentary—both fun and technical? Then Subscribe to our Blog. Simply go to the "Our Blog" tab of our website, www.TheHGroup-Salem.com. Click on the "Subscribe to our Blog" RSS button and follow the instructions from there.