THE H GROUP, INC. | SALEM

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Financial Perspective

How Confident Are You About Your Retirement?

It takes confidence to retire. You need to know if you'll have enough financial resources to see you and your spouse all the way to the end. You also need to know what you're going to do to stay connected with people, your reason for getting out of bed each day, and how you're going to make your retirement fulfilling. Based on the Employee Benefit Research Institute's (EBRI) *27th Annual Retirement Confidence Survey*[1], Americans need a boost of well-grounded retirement confidence.

As in the past, it's a good news-bad news report. The good news is that while the confidence level has declined slightly from 2016 for those with higher incomes and retirement plans, it is up considerably from 2009. Overall, 18% of workers are very confident and 42% are somewhat confident that they will have enough money to live comfortably thought their retirement years. The retirees surveyed by EBRI are 80% somewhat-to-very confident.

The bad news? Most respondents are way behind the curve on saving for retirement, and 30% of them feel emotionally and physically stressed out worrying about retirement preparation. Only 25% have saved $100,000 or more. Nearly half–48%–have saved less than $25,000, a 10% increase since last year. That's not a bad number for young people, but it is a potential disaster for those above age 50. The report notes an increase of debt as one of the factors contributing to the under $25,000 group.

Health care expenses are a major worry. Unlike those already retired, almost half of the respondents are concerned about the adequacy and availability of Medicare when they retire. ***Even with Medicare, Fidelity Benefits Consulting estimates that a couple age 65 retiring in 2016 will need $260,000 to cover health care needs beyond those covered by Medicare.*** To cover long term care needs, Fidelity suggests an additional $130,000 in retirement assets.[2]

So clearly, there is a disconnect between confidence levels and what people are doing to justify their confidence. Fortunately, 56% of the worker respondents are at least saving for retirement. ***The good news in all of this is that those who sought financial advice and who have prepared a formal written plan are 70% more likely to feel confident about their retirement prospects.*** That number doesn't surprise us, because many of our planning clients report a feeling of relief and optimism about their futures after developing a plan of action with us. ***How about you? We'd welcome the opportunity to give you the guidance and confidence to retire and stay retired.***

Other Steps EBRI Respondents Have Taken

Source; EBRI and Greenwald Associates 2017 Retirement Confidence Survey

Prepared a formal written financial plan for retirement?	11%
Calculated how much money you would likely need to cover health care costs?	21%
Talked with a financial advisor about retirement planning?	23%
Estimated your expenses in retirement?	34%
Thought about moving or downsizing?	38%
Estimated the amount of your Social Security Benefit at retirement?	38%
Estimated how much income you would need each month in retirement?	38%
Thought about how you would occupy your time in retirement?	44%

[1] EBRI.org and Greenwald Associates, 2017 Retirement Confidence Survey. Conducted January 2017; 1082 workers and 582 retirees interviewed; margin of error ±3%.

[2] Fidelity Benefits Consulting, Fidelity Retiree Health Care Costs Estimates, August 2016.

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INSIDE

THE H GROUP INC©
INDEPENDENT WEALTH MANAGEMENT SOLUTIONS™

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Saving and Paying for College

Pretty soon, many of our readers will be sitting on bleachers proudly watching high school graduates ascend the stage as the band plays Sir Edward Elgar's Pomp and Circumstance March over and over. Fortunately, your mind will stop replaying that tune in about two weeks. But if you're like most parents, the melody will be replaced by less pleasant thoughts of paying for college.

Second only to retirement, providing a college education for your children can be one of the most expensive purchases you will ever make. Quite often, college expenses hit close to retirement time, so for those of you who won't be in the bleachers in the next few years, now is the time to start planning.

Average Tuition & Other Expenses for 2016-2017

Private four-year	$33,480
Public four-year	$9,650
Public two-year	$3,520
Public four-year for out-of-state students	$24, 930
Books, lab fees, student activity fees, room, board, transportation	$11,000-$15,000*

Source: The College Board **Does not include beer money*

Paying for college often involves a combination of needs-based scholarships (not too likely for a number of our readers), merit based scholarships, employment, loans, funding with current cash flow, or savings. The best approach is probably a combination of strategies that fit your unique situation. We would be happy to discuss them with you.

Socking the money away early is your lowest-cost alternative, provided you have adequate life and disability insurance, and are maximizing your retirement plan. There are several ways to save for college. They all have pluses and minuses. Keep in mind these criteria:

1. Your long-term rate of return should be higher than the college cost inflation rate. The College Board reported that costs at public institutions increased on average 2.8% over the past decade. Room and board have increased more. CDs, money markets, and savings bonds fall way short in this criterion.

2. Match your investment strategy with the timing of when the funds will be needed. In other words, don't make short-term investments for a 10-year old, or speculative investments for a 17-year old. Remember, too, that not all the money is needed the day your child enters college.

3. Control and flexibility. Not all kids stay out of trouble or go to college. If the account is in their names, you may have no say in the matter. Strategies that do "double duty" for more than one purpose or goal are worth considering.

4. Keep an eye on taxes, but don't let taxes drive the entire strategy. Either shelter the college account from taxes or shift the tax burden to your child when appropriate (see Control above). This is best done by transferring assets to the student as needed.

The 529 Solution

Section 529 College Savings Plans, in our opinion, do the best job of meeting all four criteria because:

- You have a choice of a wide variety of investment options;
- The accounts grow tax deferred;
- The earnings can be withdrawn tax free if used for post-secondary education;
- The account can be shifted to a relative;
- You retain control;
- The assets gifted to a 529 plan are not part of your taxable estate,
- The account is protected from creditors.
- Anyone—parents, grandparents, aunts, uncles, and friends—can establish an account or contribute to an existing one. They make an excellent baby gift! Gifts can be as little as $25, and the Oregon College Savings Plan even has an easy way to request gifts.

We generally recommend the Oregon Plan (OregonCollegeSavings.com) for our Oregon clients. The fees are reasonable, the performance is good, and you can get a $2,330 Oregon income tax deduction; $4,660 for joint filers. If you are resident of another state, you might be well served to use your state's 529 plan.

Most plans offer individual portfolios of broad asset classes and blended portfolios with different risk and growth characteristics. Nearly all of them offer age-based portfolios that automatically change the asset mix as the child ages. Thus, toddlers would be in growth portfolios weighted heavily in stocks. Portfolios for 17 and 18 year beneficiaries would be mostly in short-term bonds cash and bonds. We would be happy to help our existing clients with their investment choices.

Whatever you decide to do, get started! You will be sitting on the bleachers for your child or grandchild before you know it. For every $1,000 of college cost today at 4% inflation, it will be $1,480 in 10 years and $2,025 in 18 years.

How Will Proposed Tax Legislation Affect You?

We've had several client questions regarding President Trump's tax proposal. How will it affect you? We don't know. That may come across as flippant, but so far all anybody has to go on is a one-page note that Treasury Secretary Steven Mnuchin and director of the National Economic Council Gary Chon handed out as a proposal.

The May 10 *Wall Street Journal* calls it "a mystery for the middle class." There are many ideas within it, but the essence of the proposal is to cut corporate taxes from 35% to 15%, double the standard deduction for individuals, repeal the alternative minimum tax, repeal the current 3.8% surtax on investment income, eliminate popular deductions, and close loopholes for special interests. ***These are mostly tax cuts without offsetting revenue.*** According to experts at Wharton, Penn Law, and the University of Michigan, the upshot of such a skeletal plan is increased government borrowing to fund the revenue gap, which in turn would crowd out private investment and capital formation.

Before Congress can tackle this, the Health Care bill needs to be addressed by the Senate. We don't expect to see any specifics until later in the summer, if even that soon. So, stay tuned. Tax reform is hard because every line in the code has a special interest behind it.

It's a Girl!

We're delighted to announce the latest addition to our extended family. Her name is Mika (Meeh' ka) Rae Baucum, born at 4:40 am on March 17 after 28 hours of hard labor. She weighed 7.4 pounds, measured 20" long and had a whopping head circumference of 14 inches! Mom Brenna and Dad Ben, while a little sleep deprived, are doing fine and loving the whole experience. It's been a joy to watch Mika grow and develop over the past few weeks.

Brenna is thrilled that her mom and step dad are relocating to the Salem area this summer to be a big part of Mika's upbringing (and childcare when Brenna returns to work!). Ben - who works in supply chain and procurement - is on the hunt for a job in the Salem area so they can move to town as well.

While we temporarily miss seeing Brenna's big smile every day, we're very happy for Ben and her. Brenna will work from home starting in Mid-May, then work in our office two days a week during June and July. She'll be back full time in August.

Larry Hanslits, Brenna Baucum, Katherine Suchan, and Ron Kelemen are independent CERTIFIED FINANCIAL PLANNER™ certificants. They jointly serve their clients as a team with over 100 years of combined experience. As fiduciaries, 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., an independent fee-only registered investment advisory firm with 10 professionals in five offices with over $700 million under active management. For more information about us go to the Who We Are tab at TheHGroup-Salem.com.

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, is an adjunct professor of financial planning at Oregon State University, and a member of the Rotary Club of Salem.

About Brenna Baucum, CFP®

Brenna joined the practice in 2013 and focuses her attention on Social Security and the grey areas of retirement planning. She is a member of the Rotary Club of Salem, the Women's Leadership Group, Salem Young Professionals, the FPA Mid-Winter Conference Committee Chair, and is Treasurer of the Chemeketa Community College Foundation.

About Katherine Suchan, CLU, CFP®

Katherine joined the practice in 2016, following 20 years of experience in Eugene and five in Portland. With the Chartered Life Underwriter (CLU) designation, she has additional expertise in life insurance planning for individuals and businesses. She Is active In Habitat for Humanity and Marion-Polk Food Share.

About Ron Kelemen, CFP®

In practice since 1981, Ron is the author of The Confident Retirement Journey–Your Personal & Financial Road Map. He is a Past President of the Willamette Valley Estate Planning Council, active in Rotary, and serves as a board member for Capital Manor and the Capital Manor Foundation.

Team Update

Whew! Tax season is finally over, and this year our clients' tax professionals seemed to need more reports than usual. We sponsored and attended the Chamber of Commerce First Citizen Banquet, the Chef's for Liberty House dinner/auction, the Medical Foundation Annual Fundraiser and met Laila Ali, and the Chemeketa STARS Scholarship Award Banquet.

Michelle kept busy scheduling clients. She loved showing Silver Falls & Manzanita/Cannon Beach to friends visiting from Colorado. She made visits to see her sister in Washington and has enjoyed visiting Brenna and baby Mika.

Debbie completed the tax season helping clients with tax documents and distributions. She and Bob enjoyed weekends in Cannon Beach and Sisters, and in between dog sat two labs while their kids were on vacations. They are sorting through 37 years of 'stuff' getting ready to put their house on the market this summer.

Katherine has been filling in for Brenna quite a bit and finding time in between to make some technology improvements to our processes. As the weather allows, she and Duane have been digging holes, moving plants, and mapping out an addition to their deck. They spent a lovely, but wet, weekend camping at Milo McIver State Park near Estacada.

Brenna aside from learning to be a mom, has been getting her garden ready for the upcoming season. She and her husband have enjoyed several visitors who have brought them food and love as they meet Mika. She agrees with everyone who told her that this period of parenthood really flies.

Larry and Laurie had a busy quarter. They attended the Newport Wine and Seafood Feast, volunteered pouring beer at the Cinco de Micro benefit for the Boys and Girls Club, and squeezed in a business trip to Florence and Coos Bay. They are putting their golf teams together for a charity golf tournament benefiting the Boys and Girls Club of Western Lane County. Daughter Jenna flew in from Atlanta for Mother's Day.

Ron and Kathy made a quick trip in April to New York to visit daughter Feruza and to see one of Renee Fleming's last opera performances. In May, they enjoyed their Airstream club's annual rally to Ashland to take in some plays and enjoy the beauty of southern Oregon. Ron also made a quick trip to Denver for his Nephew's college graduation.

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What Are Your Attitudes About Money?

Whether you consciously know it or not, you have attitudes about money. They could be guilt, entitlement, utilitarian, gratitude, a taboo subject, a means to an end, or even an end. Money attitudes can influence your comfort level with risk, your spending and saving patterns, your relationships, and your sense of well-being. Awareness of your attitudes about money may help you in these areas, but to change them you first need to identify them and how you acquired them.

Your money attitudes can come from a combination of people, environment, events, and beliefs. Parents teach by what they say and the good or bad examples they set. We see firsthand how growing up in the Great Depression affects the attitudes of our older clients. We also see how an inheritance, creating a successful business, or growing up relatively affluent can affect our clients' attitudes.

Here are some questions to help you identify your attitudes about money:

1. *What is the source of your money? How was it earned? How was it accumulated?*

2. *What is your relationship to the person who earned the money? How would you characterize the nature of that relationship? (Close or distant? Loving or cold?)*

3. *What messages about money did you get when you were growing up? Were there specific values communicated to you about money and its use?*

4. *What feelings do you have about the money you possess today? For example, is there a sense of sacrifice associated with the money? If inherited, do you feel there is a "cold hand from the grave" controlling the money? Is it an expression of love and caring from a parent, spouse or ancestor?*

Our favorite exercise comes in two parts: First, ask ***"What is important to me about money?"*** *Your answers may encompass security, spending, giving, making more of it, the necessities, prestige, a legacy, providing options in life, creating something, or more. You can have more than one answer. Second, don't just leave it with your answer. Follow up by asking yourself* ***"Why is that answer important to me?"*** *If you want to dive deeper, ask yourself why you answered the "why" question the way you did.*

We would be happy to go through those exercises with you, as it is much easier if you have some help with these questions to arrive at your money attitudes. If we have a good handle on your priorities and values regarding money, it's easier for us to create/update your financial plan and manage your investment portfolio.