Pursuing a Better Retirement Experience

SEVEN STEPS TO PRACTICAL SAVING

PARK+ELM
Investment Advisers

Pursuing a Better Retirement Experience

7 STEPS TO PRACTICAL SAVING

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Dear Reader,

Thank you for your interest in *Pursuing a Better Retirement Experience*. This book represents the core of our savings philosophy, and our driven approach to put our clients in a position to capture market growth over time. The information in this book can guide you to a free way of thinking about saving for retirement.

While the 7 components in this book can design your investment philosophy, it does not address your specific financial situation. Your personal goals play an important role on your path to a comfortable retirement.

We would welcome the opportunity to help you achieve your goals. We have a fiduciary commitment to our clients, and always invest with their best interest in mind. Feedback from a financial professional is a great first step, and we would be delighted to review your current investments with you.

Contact us today at 855-PARKELM or visit www.park-elm.com to schedule a free consultation. We hope you enjoy the book!

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1

The First Step is Signing up!

Do you participate? Most Americans don't, which leads to not saving enough. Many American workers do not contribute to anything through their employer, either because they don't have access to a plan, or they can't spare the cash.

1. Studies show that two-thirds of Americans do not participate.
2. Only 14% of Employers in America offer plans at all.
3. 79% of Americans work at a company with a sponsored plan, but only 41% of those workers participate.
4. Lack of offering plus lack of participation equates to a 32% participation rate in America

It doesn't help that the information on how to participate is stuck in the middle of a large stack of new employee paperwork that gets set aside permanently. There is also very little investment advice offered, and most participants choose funds without a solid understanding of the investments or the process.

What's also concerning is only 14% of employers in America offer plans at all. Prior to this recent study, it was widely thought that nearly 40% of

private sector employers offered some retirement savings plan. An evaluation of tax records uncovered this much larger problem.

Bigger companies are the likeliest to offer 401(k) plans, and since they employ more people than small firms, the overall number of U.S. workers who have the option are skewed. Because these companies employ the vast majority of Americans, it's estimated that 79% of Americans work at a company with a sponsored retirement plan. That's the good news. The bad news is that just 41% of those workers are making contributions. That combined result equates to 32% of American workers saving via a workplace retirement account.

Although lawmakers and states have proposed a variety of ways to get more people to save, they face serious pushback from Congress and the financial industry. Retirement is an important goal, but many Americans seem to have more pressing financial concerns.

DOES YOUR COMPANY OFFER A RETIREMENT PLAN?

STRATEGIES FOR SUCCESS:

For those people who are participating, their employer sponsored retirement account will be their largest asset at retirement, yet many of their co-workers aren't signing up. If you find yourself in that boat, here are a few tips for taking advantage of your retirement benefits:

1. As early as you are eligible, sign up for your company's 401(k)!
2. Create a deferral strategy. If you aren't sure what to contribute, at least defer the maximum match that your employer offers. Please take advantage of this free money.
3. Look for low-cost, diversified mutual funds. Target-date funds are a simple answer on how to allocate your portfolio. If needed, hire an investment manager to advise you on your 401k.

At Park + Elm, we help our clients develop an investment strategy that incorporates their entire financial picture. Creating an allocation and deferral strategy in your 401(k) that compliments the rest of your portfolio is crucial to your financial future. Additionally, if you are self-employed and do not have access to a 401(k) plan, there are affordable retirement solutions for you.

3

How much money do you need?

It's a money question that has no definitive answer: "How much should I save for retirement?" An exact figure is so elusive because everybody's financial situation is different. In the past, most investors blindly considered 1 million dollars to be the number to target. That is not the case for everyone. It's best to balance your need to save, with your need to live today.

It's not a universal number. But a basic target can be calculated based upon your individual needs. Put more simply...multiply your current gross pay by 80%. This is a reliable factor for retirement spending. It's not necessarily perfect. Spending tends to go down in retirement, but not for everyone. There are those that are planning large retirement purchases and spending. But a comfortable retirement can be expected at this spending rate. Exhibit 1 offers a specific example for a current income of $65,000/year.

If you're overwhelmed by how much money you should have before retiring, start with your expenses. Focus on the expenses you can control. Naturally, the less money you spend on an annual basis, the less money you'll need to retire.

It's not a matter of luck. Your expenses determine if you can truly afford retirement. Sure, we don't know exactly how much we'll spend on an annual basis in the future, but most of us can reduce several major expenses like housing, transportation, and food if we truly tried.

EXHIBIT 1

1. Current annual income
   $65,000

2. Anticipated annual spending
   $52,000 (Current Income x 80%)

3. Other sources of Income
   $20,000 (Pension, Social Security, Part-time work)

4. Need from Investments
   $32,000 (Anticipated spending less other sources)

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5. Retirement Goal =
   $800,000 (Need from Investments X 25)

The above exhibit is a very simplistic example of how to start the planning process. There are other items, like health care, that need consideration. Most people never start this process, because there are so many variables to consider. A financial adviser can help you create a strategy for savings, as well as a distribution strategy after your working years. There are several factors to be considered on your way to an enjoyable retirement. Please contact us for a complimentary investment projection and distribution strategy.

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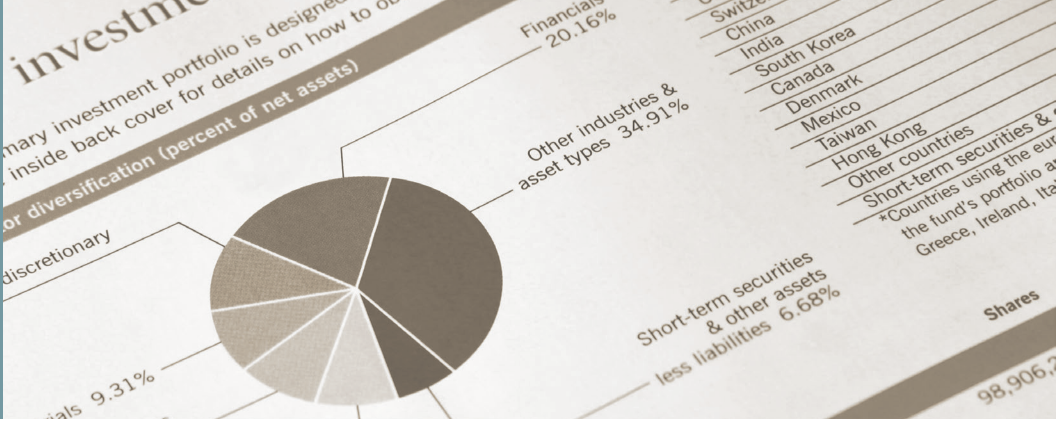


Traditional or Roth?

The 401(k) is the preferred financial vehicle for saving for retirement, and will likely be your largest asset when you do retire. Participating in your company's 401(k) plan not only allows you to capture tax advantages, but often includes an employer match of your contributions. Recently, many companies have added a Roth option to their 401(k) plans. Should you put your money into a traditional 401(k) or opt for a Roth 401(k)? Let's analyze the differences between the two by first taking a quick quiz:

Do you expect to be in a higher or lower tax bracket when you retire?

1

WILL I BE IN A HIGHER TAX BRACKET TODAY, OR WHEN I RETIRE?

- Today (generally, high earners and older workers): Traditional 401(k)
- When I retire (generally, low earners and younger people): Roth 401(k)

The distinguishing factor between roth and traditional 401(k)'s is when the money is taxed. If you are a high earner now, you may need the tax deduction now and thus, opt for a traditional 401(k). If you're in a tax bracket that you believe is lower than your future tax bracket due to tax hikes, you may be better off contributing to a roth, and saving those tax breaks for later. In technical terms, Traditional contributions are pre-tax, roth contributions are aftertax. However, on the other end, roth withdrawals are tax-free and traditional withdrawals are taxed as income. Generally speaking, a roth 401(k) is best for low-income and young people, who are likely in the lowest tax bracket of their careers.

2

IS THERE A CHANCE I'LL NEED TO WITHDRAW BEFORE AGE 59 1/2?

- Yes: Roth 401(k)
- No: Traditional 401(k)

The government discourages premature withdrawals from your 401(k), and therefore levies tax penalties on anyone who withdraws prior to age 59 1/2, an unqualified withdrawal, aside from a few exceptions.

It's possible to make an unqualified withdrawal that's not on the list of exceptions. No matter whether you have a traditional or roth, you have to pay income tax on the withdrawal, and a 10% early distribution penalty. Traditional withdrawals are taxed on the full amount, whereas roth withdrawals only tax the earnings.

Hopefully you will never have to make an unqualified withdrawal and you can let the money grow in your account until you retire. However, life happens and if you want the flexibility of being able to withdraw without as steep a tax penalty, a roth 401(k) may be a better fit for you. Keep in mind, employer contributions will be taxed as regular income upon withdrawal, no matter the type of 401(k) you choose.

3

IS THERE A TIME (BEFORE RETIREMENT) WHEN I'LL BE MAKING LESS THAN I AM NOW?

- Yes: Traditional 401(k)
- No: Roth 401(k

After separating from your employer you have options. However, with traditional 401(k)'s you'll have a second chance to decide when you want to be taxed, by rolling it to a traditional vehicle or a roth vehicle. If you roll over a traditional 401(k) to a roth 401(k) or roth IRA, you'll pay income taxes on the amount you transfer, though you won't pay taxes on withdrawals once you retire. You have the flexibility to decide when you'll pay taxes on the money. A roth 401(k) can only be rolled into a roth IRA, so even if your situation changes, you don't have an opportunity to change your mind. There are many scenarios where converting traditional funds to a roth makes sense... going back to school, becoming a homemaker, etc. If you time the conversion right, you could avoid significant tax liabilities.

In sum, roth and traditional 401(k) accounts have similarities and differences. Depending on your current and future tax bracket, need for early distributions, and desire to roll over accounts, one type of retirement account may be more beneficial than the other. One option would be to contribute to both to add to your tax savings flexibility (tax diversification).

"ROTH OR TRADITIONAL? IT DEPENDS!"

6

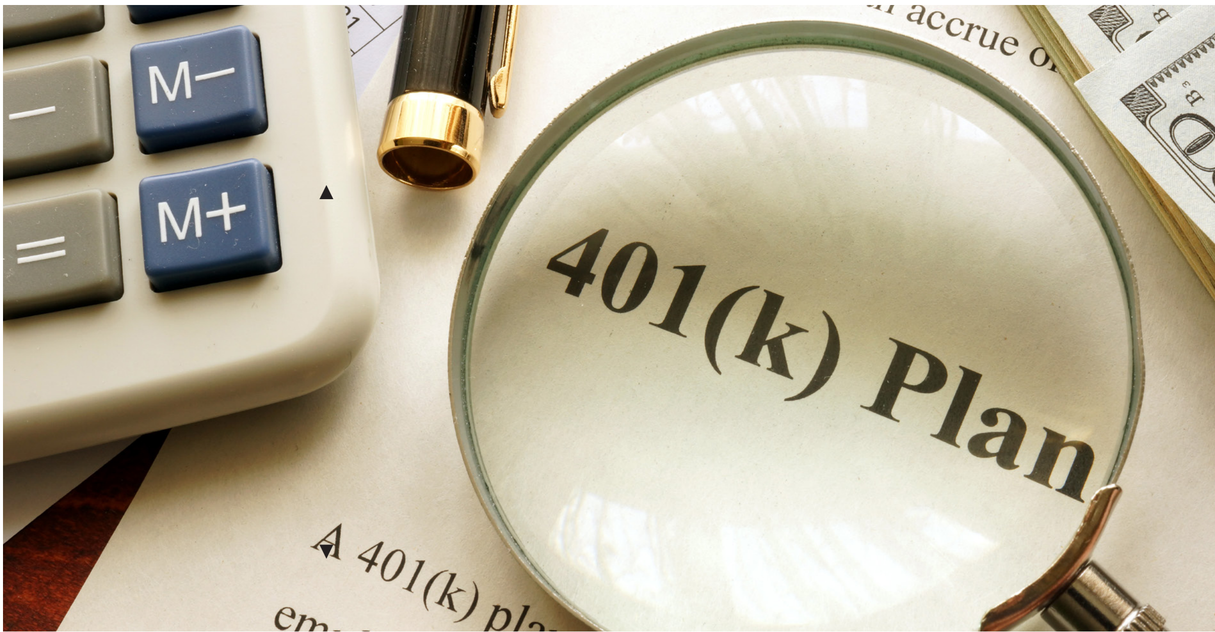
What's the right deferral rate?

When you're laying the foundation for your retirement, the first big step is choosing your deferral rate. When you say it that way, it seems easy. What if I said, "How much of your paycheck will you sacrifice now for your future self?"

Your 401(k) contribution rate will set the financial tone for your retirement plan. First let's start with the factors that go into this determination:

- **Age of the Contributor – younger participants traditionally have a lower salary to work with**
- **Income – 3% of 100,000 is significantly higher than 3% of 40,000**
- **Expenses – while it seems natural to calculate your contribution rate after everything else is paid, we advise our clients to adjust your expenses to allow for the optimal deferral rate. Pay Yourself First!!**
- **Company Match – does your company offer a matching contribution?**
- **Outside investments – are you investing for retirement elsewhere?**

It's clear that savers are at different points in their careers and lives. There is not a magic number. But everyone can take steps to get to the optimal amount of savings. There are many factors that can help you determine your deferral rate. This checklist is a good place to start:



1. **You have to start somewhere. Make that first step. SIGN UP! Even if it's a small deferral, get in the habit of doing something**
2. **Start with a calculation of how much you will need. Refer to #3 in this series "On my retirement day, how much money will I need?"**
3. **If possible, maximize the company match. If your company offers a match, ideally you would be able to save enough to get the full match...the FREE MONEY!**
4. **Next, focus on paying off your high interest debt like credit cards.**
5. **Make a goal to increase your contribution every year until you reach 15% – traditionally known as the 401(k) deferral Sweet Spot.**

Conclusion:

Make a commitment to pay yourself first and take advantage of free money from your employer. Stay disciplined and work toward a goal of increasing your deferral every year. When selecting a deferral rate, aim higher rather than lower! You'll thank yourself later! If this process seems overwhelming, a financial advisor can help you determine the best rate for your situation.

2

No 401(k)? No Problem!

Chapter 1 breaks down the various reasons why Americans aren't participating, and the steps for signing up for your company sponsored plan. But what if your company doesn't offer a 401(k)?

Here are six steps you can take to prepare for your future...

1

Set up a traditional IRA

A traditional IRA allows you to save up to $6,000 a year for retirement ($7,000 if you're over age 50) tax free.

Setting up an IRA isn't hard. You can start by figuring out where to open your account. Banks, brokers, and Investment Advisers can open an IRA in a day or two, and you can begin to fund your retirement. If you're new to saving, a low or no account minimum is the best place to start.

2

Set up a roth IRA

A Roth IRA generates tax-free retirement income, but the money you contribute can't be deducted. In exchange for giving up the tax deduction today, you get the possibility of tax-free income in retirement. Roths have a few other perks, as well, such as penalty-free early withdrawals of contributions (though not earnings) and no required minimum distributions at age 70 1/2.

Not sure whether a traditional or Roth IRA is the right choice? It all depends on what tax bracket you think you'll be in at retirement. If you think your taxes will be higher in retirement than they are today, a Roth is a smart move. If you think your taxes will be lower when you retire, go with the traditional IRA. Keep in mind, there are limitations in regards to who can contribute to a Roth, and how much can be contributed.

Contact us today for a free Business Owner's Guide with more details on SEP, SIMPLE & SOLO 401(k)'s

3

Look for options for the self-employed

Working for yourself is no excuse not to save for retirement. There are options for saving for retirement beyond traditional and Roth IRAs.

Consider a:
- SEP IRA
- Solo 401(k)
- Simple IRA

If you work for yourself, consider a SEP IRA, which lets you put away up to $56,000 a year for retirement. Or you could set up a solo 401(k) or SIMPLE IRA. These plans are similar, but you might be able to save more because of slightly different rules regarding those contributions.

Even if your business is a side gig in addition to your full-time job, you can still set up a retirement plan. Shoveling a big chunk of your money into a tax-advantaged retirement account, could help make up for not having a plan at your full-time job.

4

Set up a spousal IRA

Spousal IRA's are similar to traditional or roth IRA's, and designed for a working spouse to contribute an additional $6,000 a year on behalf of a non-working spouse. The contributions could be entirely deductable

5

Max out your HSA contributions

An HSA is designed to help you cover out-of-pocket medical expenses, but it can also help you save for retirement. Your employer might not have a retirement plan, but another one of your employee benefits could give you a way to save tax-free: your health savings account. An HSA lets you put aside $7,000 per familyto cover out-of-pocket health expenses. The money grows in the account tax-free, and if you use the funds to pay for qualified medical expenses, withdrawals are tax-free. The best news...there is no use-it-or-lose-it provision.

Your health expenses are likely to skyrocket as you age, so setting aside some money now to cover those bills can be a smart move; and if you don't need the money for health care costs, you can make penalty-free withdrawals at 65.

6

Save the old-fanshioned way

Build a nest egg by investing in a traditional brokerage account. Sure, you won't get the tax deductions, but you won't have to worry about IRS rules regarding withdrawals and limits. Pay attention to capital gains and consult an adivser to help minimize tax liability.

Longer life spans and dissappointing investment returns could create a $400 Trillion retirement savings shortfall in about 3 decades.

4

Health Care in retirement

Funding your future can be extremely daunting and confusing. One of the hardest expenses to plan for in retirement, is the largest one. Young or old, it's crucial to plan for steep medical expenses. Medication costs continue to rise and over time, health care costs could exceed social security payments. If you start planning now, there are solutions to the health care obstacle..

You may need $75,000 - $90,000 per year for a private room in a long-term-care facility!

Let's break down the problems and solutions:

1. Inflation and Social Security are not keeping up with Health Care costs

Health-care costs for retirees are likely to increase an average of 5.5% annually over the next decade, which is triple the average inflation rate, and double the cost of living adjustment on Social Security benefits. If a 65 year old couple retired today, they would spend almost $30,000 more in total lifetime retirement health care expenses than a couple who retired last year.

2. Medicare

Medicare will cover some of your expenses, but you'll still have deductibles, premiums, and copays, and there are some services, like hearing aids, that it doesn't cover at all. In some instances Medicare premiums can be in the $400-$500 range monthly. Check out solution #2 to offset some of these out-of-pocket expenses.

3. Health care will cost $300,000 – $400,000

Health care will be one of the most significant retirement costs. Lifetime health care premiums will hit well over $300,000 for a healthy 65-year-old couple. Add deductibles, copays, and other out-of-pocket costs into the mix, that number grows to over $400,000 if you're healthy.

4. Prescription drugs will drain your budget

Anyone who makes regular trips to the pharmacy can educate the masses about the rising costs of prescription drugs. You can anticipate this cost increase to continue for the foreseeable future.

5. A longer lifespan will be expensive, especially for women

Advanced medicine and increased societal awareness has increased our life expectancy, and in turn increased the number of years we are paying for health care. Along those lines, we know that women will face higher lifetime health care costs because, they are expected to live on average two years longer than men.

Health care could cost $300,000-$400,000 over your lifetime

We like to focus on the things we can control. So let's assume 1-5 above are constants, and begin to prepare by controlling the things we can change. There are strategies to combat the issue of health care in retirement:

1. Take better care of yourself; modify your physical behavior, and make small lifestyle changes now.
2. Start a Health Savings Account. A HSA can be kept into retirement and it's an opportunity to TRIPLE dip on tax savings. It's not "use it or lose it", so contributions can be carried to the distant future.
3. Commit to a long-term savings plan. Save early, because even the smallest contributions can make a big impact. Take advantabe of your employer's contributions, and don't forget to account for health care costs.

7

Weighing your rollover options

When you retire or change jobs, you have new options for your old 401(k) that can provide continued potential tax-deferred growth opportunities. With a transition of this magnitude, it's helpful to understand the steps in the process and have a checklist for guidance...

Your Transition Checklist

1. **Contact your former HR department**
2. **Consider the pros and cons of the options (see next page)**
3. **Consult a financial advisor and develop a retirement income strategy**

There are 3 main options:

1

STAY IN YOUR PLAN – If this is an applicable option, you...

- keep tax-deffered status, earn tax-free growth and avoid paying current taxes or penalties
- will be limited to the investment choices in the plan
- will be restricted to the withdrawal rules of the plan

2

ROLL IT INTO A ROLLOVER IRA – This is the recommended option because you will...

- keep tax-deferred status, earn tax-free growth and avoid paying current taxes or penalties
- be able to consolidate your retirement savings
- add additional investment options
- enjoy more flexible withdrawal options
- potentially lower fees than traditional 401(k) plans

Investment costs and fees, outside accounts, and overall financial plan should be taken into consideration when evaluating an IRA rollover.

3

CASH OUT (NOT RECOMMENDED) – If you cash out your 401(k)...

- there are immediate & significant tax consequences
- there are most likely withdrawal penalties
- you will have immediate access to the funds
- you will have 60 days to complete a rollover

If you choose the recommended option of rolling over your old 401(k), use the step-by-step guide on the next page to help you through the process...

8

Health Care Costs Rising Quickly!

32% Participation

Sign Up!

ROTH OR TRADITIONAL

Take advantage of free money!

Rollover Step-By-Step Guide

1. Open a rollover IRA with a trusted firm
2. Complete your distribution paperwork to do a DIRECT rollover to your new IRA
3. Consult a financial advisor to develop a strategic retirement plan based on your personal financial situation
4. Implement your new strategy and focus on disciplined investing

DISCLOSURES

Rolling over your existing 401(k) or IRA to an IRA with Park + Elm Investment Advisers means acknowledging that your rollover funds could potentially have higher overall costs. It's important to assess whether or not the overall fees are reasonable and that you are making an informed decision based upon other benefits you will receive from Park + Elm Investment Advisers.

WHEN CHOOSING TO ROLL OVER YOUR 401(K) OR IRA TO AN IRA WITH PARK + ELM INVESTMENT ADVISERS these are the added benefits:

1. Access to Dimensional Fund Advisers: a low-cost provider of mutual funds exclusively offered by selected advisers whom go through advanced training on utilization, portfolio design, and risk management.

2. Portfolio Management Technology: aggregate my outside accounts, goals programs, weekly performance reporting, allocation analysis.

3. Risk Measurement Technology: analyze risk tolerance and compare it to the risk level of my portfolio. Build corresponding portfolio and assist with retirement planning.

4. No account fees with Charles Schwab

5. Continuous and Regular supervision by my Adviser

6. Regular meetings and client services from Park + Elm Advisers and Staff

Charts are for illustrative purposes only.

Park + Elm Investment Advisers is an investment advisor registered with the State of Indiana.

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Park + Elm Investment Advisers is an Indianapolis based Independent Investment Advisor. Started in 2007, we are wealth managers specializing in retirement portfolios for individuals, as well as corporate retirement plans.

Designing a portfolio to meet individual expectations and comfort levels requires a risk management component. Our technology platforms, as well as our insurance division, Park + Elm Insurance Services, are strong components to our strategic plans.

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