A Little Planning Helps Avoid a Lot of Mistakes

RETIREMENT SERVICES

A complete financial plan has lots of moving pieces. Saving for retirement, managing taxes, and protecting property and loved ones are just some of the parts. Success in retirement savings includes starting early, getting the full value of employer benefits, diversifying investments, and allowing the funds to grow over time by avoiding loans and early withdrawals.

But what about everything else? Three experts weigh in on smart money management.

RANDY MITCHELL
Accredited Tax Preparer
Mitchell Income Tax Services

Don't Pay More Than You Must

One of the biggest mistakes people make on their taxes, according to accountant Randy Mitchell, is failing to plan for them.

Income levels matter, he said, especially for those accustomed to education and childcare deductions. "People get raises and follow bad advice about withholdings," he said. "Then they end up owing. So many people think that if they claim single tax payer with one deduction, that will cover their taxes," he said. "But there are a lot more variables."

Planning in advance for taxes can be especially important for retired people. "A lot of people think, 'Once I get older, my taxes will be simpler,'" Mitchell said. "That's actually far from the truth." Social Security payments, investment distributions, and part-time jobs can all add complexity to tax preparation.

To help with the planning process, Mitchell reviews the prior year's returns item by item. He asks probing questions about anything that may have changed. He looks for new jobs, second jobs, accounts that have been opened or closed, and how a person is using his or her employee benefits.

By looking for opportunities to saving in Health Savings Accounts or Retirement Plans, and by paying close attention to the details, Mitchell said he has been able to help clients save hundreds of dollars off their tax debt.

In 2016, Maine averaged the lowest tax refunds at $2,300. Refunds were highest in Texas with an average payment of $3,130.

Source: IRS, 2017

Protect What You Have

MOLLY CALLAHAN
Property and Casualty Insurance Agent
The Sloan Agency

Like tax preparation, insurance coverage requires planning. Property and casualty expert Molly Callahan helps people think about what they need by describing different scenarios and asking clients how they might fare. "I want them to be prepared if something were to happen," she said. "I ask how they would handle a $5,000 financial shock. Even a $2,500 shock."

"A lot of people come to me and they're way underinsured," she said. "The standard rate (of property value coverage) is $100,000, but that may not be enough." This is because most people insure to market value rather than replacement value, she explained.

"Market value is what someone's home would sell for," said Callahan. "Replacement value is what it would take to rebuild your home and replace the contents to the same level of quality."

But the conversation isn't just about replacing lost property. It's also about understanding risk. "We talk about things that create exposure, like swimming pools, teenage drivers, or even deep pockets," she said. "People need to understand that they aren't just liable for damages. In the event of an injury, they may need to cover lost wages and medical bills, too."

According to Callahan, people are often surprised at how affordable increased coverage can be. Premiums rise very little when clients increase replacement coverage by $50,000 or liability coverage by $100,000, she said.

> 1 in 15 homes have an insurance claim each year.
>
> Source: Insurance Information Institute, 2015

As Mitchell does with tax planning, Callahan also asks clients annually about life events that could change coverage needs, such as the birth of a child, the purchase of a house, or a new job at a different salary level. Retirement, she said, usually simplifies insurance needs as people may downsize their property and reduce personal risk factors.

Protect Those You Love

CHAD ESSLINGER
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"Most people don't like to talk about dying, but it is important to think about it," said Chartered Financial Planner, Chad Esslinger.

"We innately believe we are going to live long, healthy lives, and so we don't plan," he said. "But one of your hidden assets is your insurability. People think they can always get insurance, but it depends on your health. I've seen too many people who've waited and then developed an issue and couldn't get insured."

To help his clients decide how much coverage they need, Esslinger talks about the **D.I.M.E.** model. He asks them, in the event of their death, what dependents would need to pay outstanding **D**ebt, replace lost **I**ncome, cover the **M**ortgage, and pay for children's **E**ducations.

Affording life insurance is a concern some of his clients express. "They throw out big numbers, $50,000 . . . $250,000. But there is no right or wrong amount of coverage. Life insurance isn't about making your heirs richer or poorer, it's about helping them maintain their standard of living."

The most important thing, Esslinger said, is to simply have the discussion and make an informed choice.

43% of Americans say they would feel a financial hit if the family's primary wage earner died.

Source: LIMRA, 2015

Whether protecting your property, your loved ones, or your income, these experts agree that the key is planning. Periodically review changes in your life and have a conversation about what that may mean for your financial decisions. Experts such as these can help. Your retirement plan service provider may have educational materials as well.

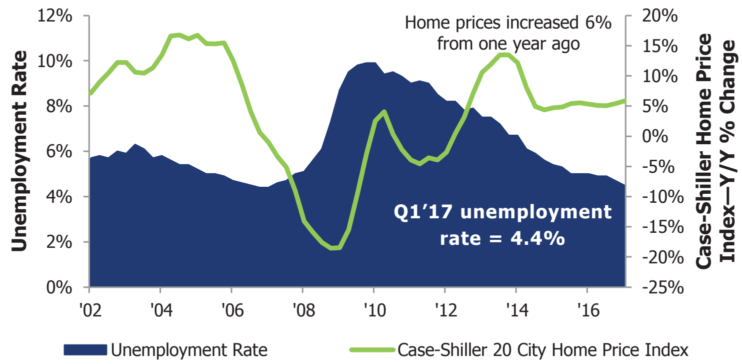
ON THE MARK:

WHAT'S HAPPENING IN THE ECONOMY AND MARKETPLACE

Strength in the US Housing Recovery

A strong housing market remains an integral cornerstone to US economic improvement and recovery. The housing industry draws resources from many different areas of the economy, creating a ripple effect on industries ranging from building materials, retail, and even into auto sales. As a result, a strong housing market is bullish for stocks because consumer spending spurs corporate profits and increases earnings.

HOUSING PRICES AND UNEMPLOYMENT



Source: St. Louis Federal Reserve, S&P

Four key factors drive the current strength of the housing market:

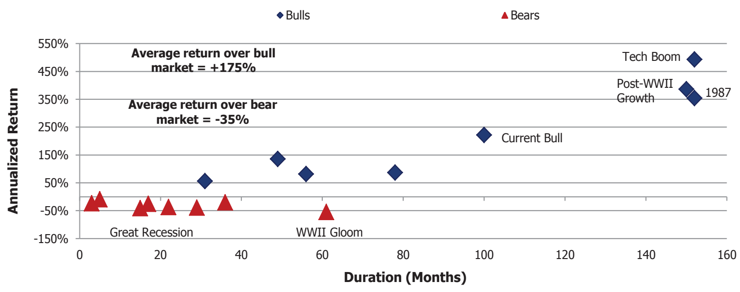
- **Employment:** A strong labor market leads to better wages, allowing more people able to afford a home.
- **Consumer Confidence:** Optimistic consumers are more likely to take on debt to buy one of life's largest purchases. The University of Michigan's Consumer Sentiment survey remains high at 97.1% through May 2017.
- **Affordability:** With low mortgage rates, consumers can more easily make loan payments. Even with the Fed's four recent rate hikes, long-term interest rates are still near all-time lows. A 30-year mortgage as of June, 2017, could be borrowed at 3.90% versus a rate of 6.1% in 2007.
- **Rent Prices:** According to the Census ACS survey, the average gross rental rate was $1,021 in 2015, up from $890 in 2005. Rising rents may make home ownership a more attractive alternative for some.

After the market crisis of 2008, housing starts were slow to recover and did not pick up until late 2013. The slow recovery was partially driven by oversupply during the crisis, a more cautious approach by builders, access to financing, and availability of developed lots.

There is a strong correlation between job creation and rising housing demand, though, and as unemployment rates fell to their current 4.4%, home prices rebounded and have maintained stable growth rates between 5-6%. The demand has also led to decreased supply and the current below-average housing inventory has also helped create stable price appreciation. Today, homes are on the market for just under four months, on average.

Near record low unemployment and attractive interest rates could continue to spur housing development, which in turn will likely have many direct and indirect positive impacts on the domestic economy.

DURATION AND RETURN OF BULLS AND BEARS



Source: Standard & Poor's

Marketplace Snapshot

Topic	Status
Economic Growth	Picking Up
Employment	Full Employment
Inflation	Low but Rising
Interest Rates	Low but Rising
Markets	Near All-Time Highs

ANNUALIZED RETURNS: BROAD MARKET EQUITY INDICES

	Q2 2017	YTD	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	3.95%	9.35%	22.12%	11.01%	13.45%	7.57%
S&P 500	3.09%	9.34%	17.90%	9.61%	14.63%	7.18%
NASDAQ	3.87%	14.07%	26.80%	11.68%	15.91%	8.96%
MSCI EAFE	6.12%	13.81%	20.27%	1.15%	8.69%	1.03%
MSCI ACWI	4.27%	11.48%	18.78%	4.82%	10.54%	3.71%
MSCI Emerging Markets	6.27%	18.43%	23.75%	1.07%	3.96%	1.91%
MSCI US REIT	1.65%	2.66%	-1.82%	8.19%	9.38%	5.94%
Bloomberg Commodity	-3.00%	-5.26%	-6.50%	-14.81%	-9.25%	-6.49%

Source: Dow Jones, Standard & Poor's, NASDAQ, and MSCI. Data as of 06/30/17.

ANNUALIZED RETURNS: FIXED-INCOME INDICES

	Q2 2017	YTD	1-Year	3-Year	5-Year	10-Year
2-Year Treasury	0.12%	0.38%	-0.30%	0.55%	0.53%	2.05%
5-Year Treasury	0.66%	1.12%	-2.63%	1.29%	0.81%	4.24%
10-Year Treasury	1.31%	2.11%	-5.56%	2.39%	1.13%	5.16%
BarCap US Aggregate	1.45%	2.27%	-0.31%	2.48%	2.21%	4.48%
BarCap US Corp IG	2.54%	3.80%	2.28%	3.61%	3.96%	5.79%
BarCap US Corp HY	2.17%	4.93%	12.70%	4.48%	6.89%	7.67%
BarCap US TIPS	-0.40%	0.85%	-0.63%	0.63%	0.27%	4.27%
BarCap Global Aggregate	2.60%	4.41%	-2.18%	-0.35%	0.78%	3.69%

Source: Barclay's Capital. Data as of 06/30/17.

Looking in the Rearview Mirror

The US stock market is in the midst of an impressive 8-year bull market. Some worry this means we must be approaching another downturn, while others believe that this bull market has a lot of upside remaining. No one can know what the market will do for certain, but context on past markets can help investors compare the current bull to history and see that bull markets do not die solely from advancing age.

The business cycle and growth of corporate earnings are the single biggest drivers of long-term stock market returns. The current US economy has been in a low growth environment, and many economists argue that we have not hit the expansion peak yet because growth rates have remained modest and inflation is low. This slow growth environment could lead to a very prolonged business cycle that in turn supports a longer than normal bull market. The historically low unemployment levels, though, are one sign that the economy is entering a later phase of growth expansion.

To evaluate the environment, investment experts look at an index of leading economic indicators. Leading indicators tend to move in advance of a business cycle shift and can help predict a change in market direction. The leading index began to trend downward prior to the last three recessions. In the current expansion period, the index peaked in early 2014 prior to the 2015 slowdown. The metric has been trending higher recently, giving some confidence that the slowdown period is behind us and did not turn into a full recession.

Changes in economic and market conditions, however, can happen swiftly and produce correction periods like those experienced in 2015. Retirement investors should keep a long-term perspective and use a prudent asset allocation appropriate for age, risk tolerance, and overall goals.

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