reinventing retirement

Your Retirement Planning Newsletter

Second Quarter 2015

Don't Eat the Marshmallow!

Having more self-control than a preschooler can lead to more rewards.

Fifty years ago, psychologists at Stanford University conducted an experiment on preschoolers. During this test, researchers placed youngsters in individual rooms and asked each child to sit down in front of a tray containing one marshmallow. The child was given a choice: He or she could eat this marshmallow immediately or wait a little while for the researchers to place a second marshmallow on the tray—an opportunity to enjoy two treats instead of just one.

What did the kids do, what would you do, and what does the ability to delay gratification mean for future retirement success?

While encouraging kids to eat more candy wasn't the goal of this multi-year study, it eventually led to a powerful conclusion: Children who "passed" the marshmallow test had greater competence and success later on as adults.[1] Kids who successfully waited for the second marshmallow showed self-restraint and understood that not all needs require immediate gratification. This example is directly applicable to behavioral finance: Controlling spending now may lead to significant benefits in the future.

Patience is not just a virtue—it may create its own success

There are a few steps you can take today that potentially could lead to greater retirement success tomorrow. They include:

- **Enrolling in your 401(k).** By setting aside money from each paycheck before you ever see it, you avoid unnecessary spending.
- **Making a habit of saving and increasing your plan contributions.** Some experts say you should save 15% of your pretax income each year for your retirement, including your 401(k) and IRA. If your plan offers any employer matching contributions, take advantage of these as well.
- **Knowing when you may need professional advice.** Those who lack confidence in their ability to manage their investments may be more prone to "cash out" at the worst time—at market lows—and wreck their retirement plan. Unless you are comfortable making your own investment decisions and making changes to your account as your retirement date nears, consider tapping professional advice that may be available to you within your employer's retirement plan. (Advice can come in many shapes; for details, see our related article on Page 2.)

Self-control in retirement planning is key: By avoiding impulse spending and investing consistently over time to pursue rewards, you may move that much closer to securing your financial future.

[1] Walter Mischel, *The Marshmallow Test: Mastering Self-Control* (New York: Little, Brown & Co., 2014).

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Getting Help Makes Dollars (and Sense) When Planning for Retirement

Take advantage of the professional investment advice that's available in your employer's retirement plan.

There is help available to you through your employer's retirement plan—it's in the form of professional advice. According to a recent survey, 59% of employees who contribute to their company 401(k) plan wish there was an easier way to choose the right investments.[2] Help can come in several forms, such as:

- **Online planning resources.** Your employer's benefits website offers a wealth of planning tips and strategies, such as retirement calculators, worksheets, risk tolerance questionnaires, and guidance on what to do with your retirement savings when you retire or change jobs.
- **Target-date funds.** These are investment options that, by design, reduce their risk (i.e., sell stocks and purchase more fixed income investments) as you approach your anticipated retirement date. The term "target date" refers to the approximate date when investors in the fund plan to start taking money out. The principal value of a target date fund is not guaranteed at any time, including at the target date.
- **Asset allocation funds.** These investments regularly rebalance their portfolios to maintain a fixed percentage allocation to stocks, bonds and cash equivalents, which may make it easier to stay true to your investment comfort level.[3]
- **Professionally managed accounts.** These personalized investment portfolios are managed by a hired professional investment manager who can tailor the investment makeup to each investor's individual needs.

A 45-year-old who receives some form of investment help is projected to have saved 79% more money in retirement than someone who hasn't received any assistance.[4]

Receiving some form of guidance with your retirement account may improve your ability to achieve retirement success. Research shows a 3.3% annual increase in investment returns for plan participants who receive investment help in their retirement plan.[5]

In addition, investment advisors have the time, persistence and expertise to manage your investments more effectively than you may be able to do on your own. As they manage your accounts, they save you time and allow you to focus more on working toward retirement and your everyday needs. Some advisors are legally required to act in your best interest and, therefore, must provide unbiased guidance on investments that meet your objectives. Better yet, when markets become volatile, an advisor will be there to provide emotional support and can help you plan for your next big steps.

[2] Charles Schwab, "401(k) Participant Survey (Koski Research)," August 2014. Past performance is not indicative of future results. All investing involves risk, including loss of principal.

[3] There is no guarantee that asset allocation or portfolio rebalancing will generate a profit or protect against loss. All investing involves risk, including loss of principal.

[4] Financial Engines and Aon Hewitt, *Help in Defined Contribution Plans: 2006 Through 2012*, May 2014. Investment help is defined as participant usage of target-date funds, managed accounts or online advice. Past performance is not indicative of future results. All investing involves risk, including loss of principal.

[5] Ibid.

Know Before You Go: Understanding Your Distribution Options

When changing jobs or leaving employment, decisions you make about taking money from your plan can have serious tax consequences. Here's what you need to know.

Your Options	Pros	Cons
1. Roll over to an IRA	■ Continue tax-deferred growth ■ Avoid early withdrawal penalties ■ Have flexible investment options ■ Can choose a Roth after-tax IRA ■ Consolidate your assets in one convenient place	■ Restricts borrowing against your assets ■ Applies annual fees and commissions that may be higher than those in your current plan
2. Remain in your plan	■ Continue tax-deferred growth ■ Avoid early withdrawal penalties ■ Receive creditor protection ■ May have lower fees ■ Move to another retirement plan later	■ Possibly limited investment options ■ May not be able to remain in the plan if the balance is less than $5,000 ■ May not have access to loans
3. Roll over to another employer's plan	■ Continue tax-deferred growth ■ Avoid early withdrawal penalties ■ May be able to consolidate qualified assets in one account ■ May be able to borrow from the plan ■ Receive creditor protection ■ May have lower fees	■ Limits you to investment options offered by that plan ■ May have limits on how you can move money among investment choices
4. Take a distribution in cash	■ Get the money you need right away	■ Possible 10% early withdrawal penalty if you are under age 59½ ■ Adds to ordinary income and may increase your tax liability in the year received ■ May severely limit your ability to stay on track for retirement

Consult with your investment advisor or tax professional before deciding on any distribution option.

retirement in motion

Tips and resources that everyone can use

Boomers on the Brink: Issues Affecting Participants as They Approach Retirement

Will you still need me when I'm 64—or is it 65?

Some birthdays are more important than others when it comes to retirement. Here are some milestones to remember.

Age 50	More money can be placed in your retirement plan this year. Put an additional $6,000 into your 401(k) and an extra $1,000 into your Roth or traditional IRA.
Age 59½	There is no longer an early withdrawal penalty for taking money out of your tax-advantaged retirement plan.
Age 62	You can claim Social Security, but your benefits will only be 75% of what you could collect at full retirement (age 66 for people born between 1943 and 1954).
Age 65	Time to enroll in Medicare, Part A, which covers hospitalization and costs nothing.
Age 70	You qualify for the maximum Social Security benefits—there is no advantage in delaying any longer.
Age 70½	This is when you must start annual required minimum distributions from your 401(k) and IRAs.

Q&A: Common Questions Plan Participants Ask

How do I boost my credit score?

Your FICO score helps determine the amount of money you will be allowed to borrow and the interest rate you likely will pay. These results, which lenders use to qualify loan recipients, attempt to identify which borrowers are likely to repay on time. Having a healthy (high) score could help you lower your payments on a car or house purchase by hundreds or even thousands of dollars over the life of the loan. A low score from late payments on loans and credit cards can result in hurting your ability to qualify for loans in the future.

You can easily improve your FICO score. Spending less on your credit cards and paying off balances each month can improve your score in as little as one payment period. Making these ritual actions can not only strengthen your ability to manage other debts—car loans, mortgages—but also can build your credit history over time.

FICO Score Chart

Score Range	Credit Rating
760–850	Excellent
700–759	Very Good
660–699	Good
620–659	Below Average
580–619	Poor
Below 579	Very Poor

Tools and Techniques: Resources to Help Guide Your Retirement Plan

Rule of thumb for gauging retirement income

Check your retirement progress by adding up all of your savings and applying a 4% annual portfolio withdrawal rate, equal to $4,000 a year for every $100,000 saved. This is a conservative way to project the annual income that your savings will produce. Should you be saving more?

Corner on the Market: Basic Financial Terms to Know

Longevity risk

Longevity risk is the chance that you could outlive your life savings. The best way to protect yourself from this unknown is to save enough to be financially secure in retirement, taking into account your health and spending needs. To estimate how long you are likely to live based on the latest medical and scientific data, check out the Life Expectancy calculator at www.livingto100.com.

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