

# reinventing retirement

Your Retirement Planning Newsletter

Second Quarter 2016

## Rx: Seven Steps to Financial Wellness

The goal of good health should be at the core of decisions you make about money

As any wise person will tell you—and many have, from the Roman poet Virgil to Gandhi—health is wealth. The irony is that the converse is also true—a growing body of research suggests that financial problems actually can lead to health problems.

Financial stress has been shown to cause anxiety, migraines, sleep disorders and other physical ailments, including high blood pressure and heart disease.<sup>1</sup> And it's not a rare occurrence. A 2015 survey by the American Psychological Association (APA) showed that 72% of Americans reported feeling stressed about money at least some of the time during the past month.<sup>2</sup> Stress levels are particularly high among parents, younger generations and those living in lower-income households.

Over the past decade, psychologists coined the term Money Anxiety Disorder (MAD) to describe a condition of constant worry and unease about money. The emotions that arise from worrying about money can lead to health issues that affect job performance, relationships, and feelings about work-life security.

### How to face health-related money anxiety

Many Americans resort to eating unhealthy foods, or eating and drinking to excess, as coping mechanisms for financial stress.



Health experts warn this can lead to long-term health issues, and instead they recommend deep breathing exercises, which have a proven calming effect on the central nervous system. Regular exercise and sticking to a healthy diet can also be very helpful.

### De-stressing about money

Financial experts often suggest taking a direct approach to analyzing your relationship with money so that you can manage financial stress. Some recommend taking one or more of the following steps that can help lead to financial wellness.

- 1. Understand the role of good health in your life –**  
Money is never a substitute.

### What triggers financial stress?

Not all people react the same to financial roadblocks, but there are several major causes of money-related stress:

- Fearing the possible loss of a job
- Comparing financial situation to others' — being anxious of "having enough"
- The effects of piling debts

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<sup>1</sup> "Debt Stress: The Toll Owing Money Takes on the Body," AP-AOL Health Poll, April 2008.

<sup>2</sup> "Stress in America(tm): Paying With Our Health," American Psychological Association survey, February 2015. <http://www.apa.org/news/press/releases/2015/02/money-stress.aspx>

# What's New With Social Security?

## Recent changes in the tax law could affect your benefits

Laws that were enacted as part of the Bipartisan Budget Act of 2015 included several new rules that might affect your Social Security and other tax benefits.<sup>3</sup>

### End to “file and suspend” option

Under the IRS file and suspend option, married couples could take advantage of spousal benefits and delayed retirement credits at the same time. This option, which allowed a husband or wife to file for Social Security benefits at the same time as a spouse and then suspend them until the mandatory withdrawal age of 70, expired on April 29, 2016.



### No restricted application for early retirement

The restricted application, or “file as a spouse first strategy,” allowed the lower-earning spouse to receive benefits based on his or her own earnings history while allowing the higher-earning spouse’s future benefits to grow. The new law increases the age at which filing for spousal benefits is automatically viewed as filing for one’s own retirement benefits, moving it from age 66 to 70. There is a silver lining for those who turned age 62 by the end of 2015, however—through grandfathering, they will be able to file restricted applications when they become eligible for early benefits in several years.

### Bigger Retirement Savings Contributions Credit

Low- and moderate-income savers who meet IRS requirements may be able to take a bigger tax credit (“Saver’s Credit”) of up to \$2,000/\$4,000 (singles/couples) for making eligible contributions to an employer-sponsored retirement plan or IRA. To see if you qualify, visit [www.irs.gov](http://www.irs.gov) and enter “Do I qualify for the Retirement Savings Contributions Credit?” in the search box.

Social Security remains an important pillar of retirement income for millions of Americans. Regularly checking on how changes to the system may affect your benefits helps you effectively plan for your financial future.

<sup>3</sup> Source: Congress.gov, <https://www.congress.gov/bill/114th-congress/house-bill/1314/text>

## Rx: Seven Steps to Financial Wellness

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- 2. Prioritize your savings and control your spending** – Warren Buffett said it best: “Do not save what is left after spending, but spend what is left after saving.”
- 3. Budget** – You cannot manage your finances without a plan.
- 4. Plan for life events** – Experts suggest setting aside specific “buckets” for near-term emergencies, education and long-term retirement.
- 5. Locate a trusted source for advice** – This could be a colleague at work, an investment professional or a close relative who is sensible about money.

- 6. Participate** – Get the most out of the benefit programs you’re offered at work.

- 7. Choose carefully** – Select “sleep well” investments that don’t cause anxiety.

By following these guidelines, you’ll be able to put financial wellness in the right perspective. Ultimately, the goal should be to know how to deal honestly with your feelings about money in ways that don’t compromise your health.

# Should Dividend-paying Stocks Be Part of Your Portfolio?

Funds that invest in stocks that pay a current yield can enhance your total return

Investing in stocks, which represent shares of ownership in a public company, is one way to accumulate wealth over the long run. But what types of stocks should you own? U.S. large-cap, value or growth stocks? What about developed international or emerging market stocks? These are all good ways to diversify your stock investments.

But there are also good reasons to own stocks or stock mutual funds that pay a current return in the form of dividend yield. Dividends are a portion of a company's profits for the quarter or year that are distributable to shareholders. Companies can choose to plow their profits back into their businesses, or return a portion of their annual gains to shareholders in the form of dividends.

Typically, dividends are offered by mature businesses with well-established products/services and predictable profits. As an investment strategy, having a portion of your portfolio allocated to dividend-paying stocks could help your investment grow over time, although, as with all investing, there are no guarantees that any such investment will be profitable.

## Advantages of dividend-oriented stocks and stock funds

### They tend to steadily grow over time

A dividend represents at least a partial return on investment that is somewhat predictable. Dividend-paying companies are usually very reluctant to stop paying their dividends, since this creates uncertainty in the markets about the company's future prospects, which can have a very negative impact on their share price. Most companies strive to raise their dividend every few years, as this can serve as a powerful, positive signal to the market about the strength of their businesses. Past distributions are not indicative of future distributions.

### Down-market protection

Also, in certain types of bear markets, dividend-paying stocks tend to decline less than non-dividend-paying stocks. For example, in 2008 when the S&P 500® Index (a broad measure of the U.S. stock performance) tanked by 37%, dividend stocks, as represented by the S&P Dividend Aristocrats, declined by much less, 22%.<sup>4</sup>

### Competitive yields to bonds

In a low-interest-rate environment, the dividend yield offered by dividend-paying stocks can be competitive to rates available to investors in fixed income investments, such as government-backed or corporate bonds. The table at right compares the dividend yield of major stock indexes



against current bond interest rates. Remember that higher returns can signify higher risk, so you need to balance your expectations for returns and risk accordingly.

Stock Indexes	Dividend Yield
Dow Jones Industrial Average	2.78%
Russell 2000	1.72%
S&P 500®	2.27%
Bond Indexes	Interest Rate
1-Year Treasury Note	0.42%
10-Year Treasury Note	1.95%
Barclays Aggregate Bond	2.44%

Data as of Jan. 20, 2016. Sources: Birinyi Associates, WSJ Data Market Group. It is not possible to invest directly in an index. All trademarks are owned by their respective owners.

## A word (or two) about risk

From time to time, investor appetite for a company's dividend drives up the price of the company's stock, depressing the dividend yield. The underlying companies can lose money, which may force them to suspend the dividend payments for some period of time. The resulting loss in the stock price may greatly exceed the amount of dividend income you receive.

Investing in dividend-paying stocks should be one part of an overall strategy to generate attractive total returns over the long term. It's important to invest in funds whose stock holdings have performance records that bode well for continued success. That said, having a portion of your portfolio dedicated to dividend-paying stocks can help provide a healthy balance between funds that provide current income and more growth-oriented stocks or funds that seek capital appreciation.

<sup>4</sup> "9 Best Dividend Stocks for Bear Markets," Kiplinger.com, January 2015. Past performance does not guarantee future results. All investing involves risk, including loss of principal.

# retirement in motion

Tips and resources that everyone can use

## Tax Freedom Day®

Tax Freedom Day, as calculated by the Tax Foundation, a nonpartisan economic research think tank, is the day when the U.S. as a whole has earned enough money to pay off its total tax bill for the year. It provides an easy way for Americans to gauge the total amount of taxes and government fees they pay at various levels of government. By contributing more to a tax-advantaged retirement plan, you can lessen the impact that taxes have on your income. To see when Tax Freedom Day occurs in your state, visit the Tax Foundation's website: <http://taxfoundation.org>.

## Q&A

### Save for kids' college, or add to the retirement account?

What should be the priority when budgets are tight? Because retirement may be some years away, it may be tempting to put your kids' education savings on the front burner. But that may be a mistake. For one thing, college students can apply for low-interest loans, work-study programs and scholarships to help pay for

their education. But you cannot realistically expect to borrow funds to pay for your retirement. It may sound cold-hearted to your loved ones, but you have to consider your future income needs and not derail your retirement plan.

## Quarterly Reminder

### Update your estate planning documents

If your life situation has recently changed—if you've been divorced or widowed, or have had a child, for example—you should check to see that the beneficiaries on your retirement accounts and insurance policies are up-to-date. You should also periodically review your will, power of attorney, and health care proxy to ensure that they properly reflect your wishes upon your death.

## Tools and Techniques: Resources to Help Guide Your Retirement Plan

### How much house can you afford?

A conservative rule of thumb states that no more than 36% of your income should go toward paying your debts, and no more than 28% should be allocated for all housing expenses, including mortgage,

property tax and insurance. Of course, where you choose to live will have a significant impact on affordability. Try out the home affordability calculator at [Realtor.com](http://Realtor.com) to determine how much house you can afford: <http://tinyurl.com/homeaffordcalc>.

## Corner on the Market: Basic Financial Terms to Know

### Commodities

A commodity is a basic good in commerce that is essentially interchangeable with other commodities of the same type. When you pour a glass of orange juice or put gas in your car, you are consuming commodities. Other examples of commodities include gold, wheat, corn, beef and soybeans. Commodities can be bought and sold on exchanges in real time or through contracts that fix the price and delivery terms at some point in the future.

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