Published quarterly for SLR retirement plan participants and individual investors.

# Quarterly Retirement Review

S.L. Reed & Company
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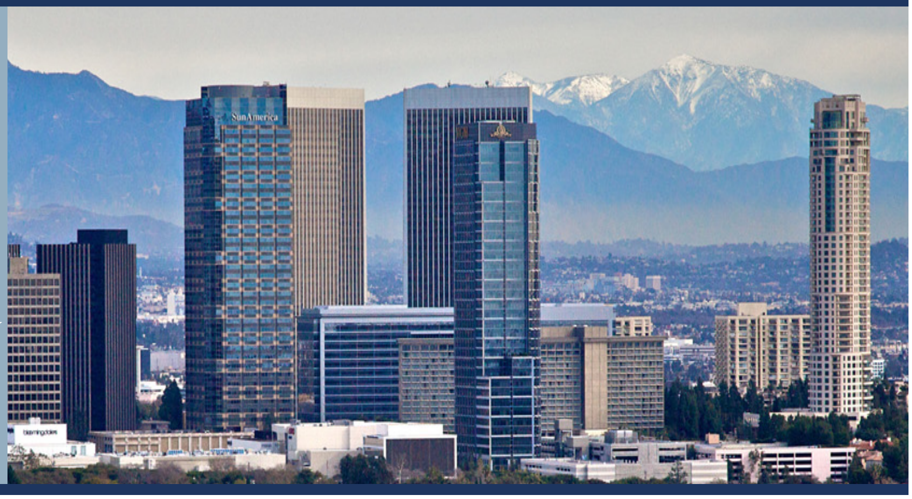
SUMMER 2018 ISSUE





## DIVERSIFY

Varying forces and events contribute to the inevitable ups and downs in the market. While no one can predict or control these fluctuations, you can control where you allocate your investments. Doing so can help ensure that your assets are invested appropriately for your age and financial goals.

**Establish the proper asset allocation for your goals:**

Your first step in constructing a well-diversified portfolio is establishing an appropriate mix of investments. For each of your financial goals, determine how to divide your assets among stocks, bonds, and short-term holdings, based on your time horizon and risk tolerance.

**Long-term goals (retirement):**

Savings should have an appropriate allocation to stocks to take advantage of the long-term growth potential of this asset class. From 1926 through 2017, stocks averaged a 10.2% annual gain, compared with an average annual return of 5.1% for bonds* Past performance cannot guarantee future results. As you get closer to achieving your goal, the allocation to stocks should decrease as you emphasize less volatile investments, such as bonds and short-term holdings. *(See the chart on Page 2.)*

**Short-term goals (emergency fund):**

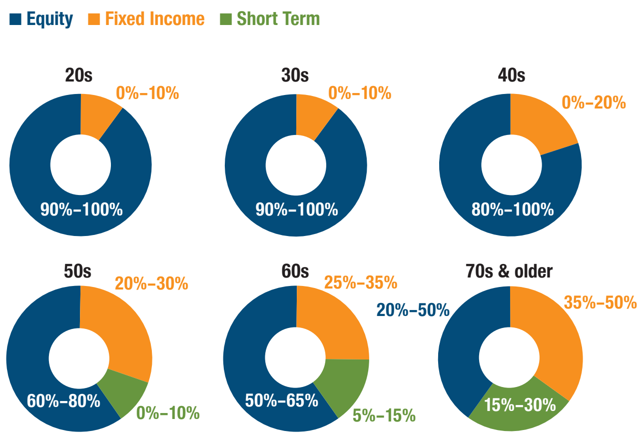
Savings should be held in stable assets, such as money market investments, that will help protect your portfolio from downside volatility.

**Invest money regularly:**

If possible, have a set amount deducted automatically from your bank account or paycheck to help you save consistently.

### Asset Allocation for Retirement

Consider these retirement asset allocation models at different ages.




**Within Equity:** 60% U.S. Large-Cap, 25% Developed International, 10% U.S. Small-Cap, 5% Emerging Markets

**Within Fixed Income:** 70% U.S. Investment-Grade, 10% High Yield, 10% International, 10% Emerging Markets

**Within Short Term:** 100% Money Market Securities, Certificates of Deposit, Bank Accounts, and/or Short-Term Bonds

These allocations are age-based only and do not take risk tolerance into account. Our asset allocation models are designed to meet the needs of a hypothetical investor with an assumed retirement age of 65 and a withdrawal horizon of 30 years.

The model asset allocations are based upon analysis that seeks to balance long-term return potential with anticipated short-term volatility. The model reflects our view of appropriate levels of trade-off between potential return and short-term volatility for investors of certain ages or time frames. The longer the time frame for investing, the higher the allocation is to equities (and the higher the short-term volatility) versus fixed income or short-term investments.

**Limitations**

While the asset allocation models have been designed with reasonable assumptions and methods, the chart provides models based on the needs of hypothetical investors only and has certain limitations:

- The models do not take into account individual circumstances or preferences and/or may not align with your accumulation time frame, withdrawal horizon, or view of the appropriate levels of trade-off between potential return and short-term volatility.
- Investing consistent with a model allocation does not protect against losses or guarantee future results.

Please be sure to take other assets, income, and investments into consideration when evaluating model allocations. Other T. Rowe Price educational tools or advice services use different assumptions and methods and may yield different outcomes.

***Source: T. Rowe Price***

## *Diversify Within Asset Classes*

Once you have established the appropriate asset allocation for a particular goal, you must ensure you are widely diversified within each asset class at the sub-asset class level. Of course, diversification cannot assure a profit or protect against loss in a declining market. Yet, there are many sub-asset class categories to consider including sectors, geographic regions and market capitalizations. To benefit as much as possible from diversification, you should seek exposure to a spectrum of options within the following:

**International stocks:**

The globalization of markets has prompted investors to shift their attention further afield as they look to diversify their holdings. The reason: Not all regions respond to economic conditions in the same way. For example, emerging economies (MSCI Emerging Markets Index) gained 37.8% in 2017, while Russian stocks (MSCI Russia Index) rose only 6.1%. And the U.S., the S&P 500 Index gained 21.8%.

**International bonds:**

The complexity and number of fixed income offerings has grown substantially in recent years, 60% of global fixed income securities are now offered by countries other than the United States. Exposure to bonds in emerging markets can help increase a portfolio's yield, while exposure to bonds of other developed economies can help smooth any volatility that results from a U.S. focused portfolio

**Capitalization:**

Small-cap stocks generally are more volatile, with greater potential for growth, while companies with larger capitalizations offer greater stability and more measured growth expectations. Diversifying across the full range of small, medium, and large companies can help your portfolio benefit from shifts in business and economic cycles, which may favor different-sized companies at different points in time.

## *ALARMING HEALTHVIEW SERVICES STUDY*

HealthView Services makes retirement health-care cost projection software for use by Financial Advisers. The software includes cost data from more than 70 million annual health-care cases, to develop estimates for clients. Parts of their study are quoted below:

U.S. retiree health-care costs are likely to increase at an average annual rate of 5.5% over the next decade. That's nearly triple the 1.9% average annual inflation rate in the U.S. from 2013 to 2016 and more than double the projected cost-of-living adjustment (COLA) on Social Security benefits.

For a healthy 65-year-old couple retiring this year with a future adjusted gross annual income of less than $170,000 after adding in any tax-exempt income, projected lifetime health-care premiums add up to $321,994 in today's dollars.

For many workers, assuming that Social Security is still around and remains the same, the benefits will flow right to their health-care providers and drug companies. For example: A 66-year-old couple decide to retire this year. Assuming the couple gets the national average Social Security benefits of $2,268 a month or $27,216 a year, Medicare premiums will eat up 40% of the couple's Social Security checks at age 70 and 76% of the benefits by age 87, according to the HealthView study.

A 55-year old couple today that files for Social Security benefits at their full retirement age of 67 will find 92% of their benefit checks going to health care.

The outlook is pretty grim. The trust fund for Social Security's retirement and disability benefits will stop being fully funded in 2034, according to last year's projections. If no solution is found, promised benefits will take about a 25% cut. Medicare's hospital insurance trust fund is projected to suffer a similar fate in 2029.

**Starting to save early, and to have savings deducted from paychecks automatically, makes it far easier to accumulate the dollars needed to cover these costs. Workers should attempt to increase those savings by 1% per year, if possible, to move steadily closer to saving 15% to 20% of their income a year.**

## HAS ANYTHING CHANGED?

**S.L. Reed & Company can help:**

401(k) Rollover from Previous Employer
Rollover IRA out of a Retirement Plan
Traditional or ROTH IRA
Taxable Accounts
Annuities
Insurance

**Additionally, we can work with you on:**

Managed Accounts

**For Assistance call:**

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