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Teach Your Children

Most of what is written in these articles applies primarily to Baby Boomers and post-Baby Boomers (Generation X), those born between 1946 and the early 1980s. The vast majority of our clients were born during that period. This generation had a profound effect on the cultural and financial aspects our current life and most of our advice has been written for them. But what about the next generation, Boomer's children or the Millennial generation?

Millennials are defined as those born between the early 1980s and the early 2000s. About half of that generation is solidly entrenched in the workforce and they are at the beginning of their savings accumulation years. As their parents it is up to us to instill in our children the importance of financial fundamentals and saving and investing for the future. So…how are millennials doing?

Not so well. Various research shows almost half of all millennials have no retirement savings. A number of reasons are cited for this: potential income for retirement savings instead is going to pay down student loans; most 401(k) retirement plans require at least one year of service and with a more transient work force, almost half of all millennials do not qualify to participate in the retirement plan; many millennials look at retirement as something forty years down the road so they can start saving later.

The first two obstacles are hard to overcome but as millennials are in the workforce longer, their income and opportunities to save should also grow. It is important for us, as both parents and potential employers, to impress upon the generation behind us that time to save works in the saver's favor.

There is a financial theory called the "Rule of 72" which states that the rate of return divided into 72 equals the approximate number of years for the investment to double in value. At a seven percent rate of return, an investors money should double in a little more than ten years. It is important, therefore, to start saving as soon as possible, even in small amounts. Because starting early means that one's money will have an opportunity to double one more time. And that last doubling is going to have a significant impact on the overall retirement savings.

One of our children fits the profile above. She has been in the workforce for almost two years but still is not eligible for her employer's 401(k) plan. While she does not have any student loans, furnishing an apartment and living in a high-cost city on a beginner's wages means there is not a lot of money left over for savings. But she was encouraged to open a Roth IRA and she is currently contributing $200 per month, which along with an initial deposit will result in a savings of almost seven percent of her income. It's not the recommended fifteen percent but it's a start. More importantly, she's now dialed into savings and investing, checking her balance regularly. And, best of all, she is already looking forward to participating in the 401(k) plan when she is eligible beginning in 2019.

It is important to impress upon our children and younger colleagues that financial security doesn't happen by itself. Even seemingly insignificant amounts saved can add up. That $3,400 saved in the example above will have the opportunity to double five times and could be worth over $50,000 when she is nearing retirement age. The way to save for retirement is the same way as to how to eat an elephant—one bite at a time.

Investing to Save Time Boosts Happiness Returns

"Time famine" is the feeling of being overwhelmed by the demands of work and life. Also known as time scarcity and time stress, this pressure is a "critical factor" in the rising rates of obesity.

Source: "Buying Time Promotes Happiness," PNAS, July 24, 2017

The more money you make, the more valuable you perceive your time to be — and the more time-strapped you may feel, according to University of British Columbia psychology professor Elizabeth Dunn.[1] So wouldn't it stand to reason that if you use some of your hard-earned money to buy yourself more time — for example, by paying someone to clean your house or mow your lawn — you might achieve a greater level of happiness? Indeed, that was the primary finding in a series of studies by Professor Dunn and other researchers published in the Proceedings of the National Academy of Sciences (PNAS).[2]

The discovery

The study's authors surveyed 6,000 individuals at diverse income levels in multiple countries, including the United States, Canada, the Netherlands, and Denmark. The surveys queried participants about whether they spent money on a monthly basis to hire others to take care of unpleasant or time-consuming daily tasks or chores — such as cleaning, yard work, cooking, and errand-running — and if so, how much they spent. Respondents were also asked to rate their "satisfaction with life" and report demographic information, such as their income level and whether they were married and had children.

Researchers found that across all national samples, 28.2% of respondents spent an average of about $148 per month to outsource disliked tasks, while in the United States, 50% of respondents spent an average of $80 to $99 on services that save time. Across all studies, those who spent money to outsource disliked tasks and/or save time had a stronger life satisfaction rating. Findings were consistent across income spectrums; in fact, in the United States, researchers found a stronger correlation among the less-affluent respondents. The authors noted, however, that their studies did not include enough people at the lowest end of the income spectrum to attribute similar findings to this group.

Of course, correlation does not necessarily indicate causality, so the researchers designed a follow-up experiment to further test their hypothesis.

In this experiment, researchers gave a group of 40 adults $80 each to spend over the course of two weekends. During the first weekend, they were to spend $40 on something that would save them time, such as ordering groceries online and having them delivered. On the second weekend, they were directed to spend $40 on a nice material purchase, such as clothes, board games, or a bottle of wine. On average, those who spent money to save time reported better moods at the end of the day than those who purchased material goods. And according to the researchers, over time, the effect of regular mood boosts can add up to greater overall satisfaction with life.

In a third study, researchers asked respondents how they would spend an extra $40. Just 2% indicated they would use the unexpected bonus to invest in time-saving services.

Perhaps most surprising of all the findings? Researchers polled 800 millionaires from the Netherlands about whether they spent money to save time. Despite the fact that these individuals could readily afford to hire others to take care of time-consuming tasks, only about half of them reported doing so on a monthly basis. Researchers surmise that the reason might be because such individuals feel guilty or don't want to be perceived as lazy for outsourcing chores they can easily do themselves.

The lesson

"If you have a lot of money and a lot of nice stuff, but you're spending your time doing things that you dislike, then your minute-to-minute happiness and overall happiness is likely to be pretty low," said Dunn in an interview about the research.[3] In the PNAS report, the study's authors contend that this may be especially true for women:

"Within many cultures, women may feel obligated to complete household tasks themselves, working a 'second-shift' at home, even when they can afford to pay someone to help. In recent decades, women have made gains, such as improved access to education, but their life satisfaction has declined; increasing uptake of time-saving services may provide a pathway toward reducing the harmful effects of women's second shift."

The bottom line? If you can afford it, don't shy away from spending money to save time. Doing so is an investment that provides immeasurable returns in the form of overall well-being.

[1] "What Is Your Time Really Worth?" Elizabeth Dunn, TEDx Colorado Springs, December 1, 2014

[2] "Buying Time Promotes Happiness," PNAS, July 24, 2017

[3] "A Psychology Expert Says Spending Your Money on This Can Boost Your Happiness," CNBC, November 10, 2017

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Marriage and Money: Taking a Team Approach to Retirement

Open communication and teamwork are especially important when it comes to saving and investing for retirement.

Now that it's fairly common for families to have two wage earners, many husbands and wives are accumulating assets in separate employer-sponsored retirement accounts. In 2018, the maximum employee contribution to a 401(k) or 403(b) plan is $18,500 ($24,500 for those age 50 and older), and employers often match contributions up to a set percentage of salary.

But even when most of a married couple's retirement assets reside in different accounts, it's still possible to craft a unified retirement strategy. To make it work, open communication and teamwork are especially important when it comes to saving and investing for retirement.

Retirement for two

Tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs can only be held in one person's name, although a spouse is typically listed as the beneficiary who would automatically inherit the account upon the original owner's death. Taxable investment accounts, on the other hand, may be held jointly.

Owning and managing separate portfolios allows each spouse to choose investments based on his or her individual risk tolerance. Some couples may prefer to maintain a high level of independence for this reason, especially if one spouse is more comfortable with market volatility than the other.

However, sharing plan information and coordinating investments might help some families build more wealth over time. For example, one spouse's workplace plan may offer a broader selection of investment options, or the offerings in one plan might be somewhat limited. With a joint strategy, both spouses agree on an appropriate asset allocation for their combined savings, and their contributions are invested in a way that takes advantage of each plan's strengths while avoiding any weaknesses.

Asset allocation is a method to help manage investment risk; it does not guarantee a profit or protect against loss.

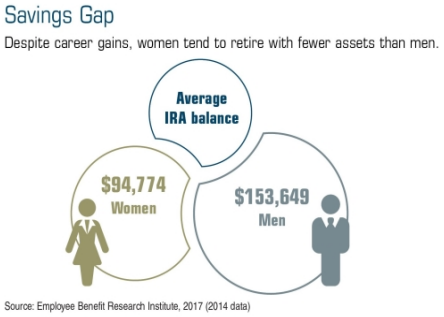
Spousal IRA opportunity

It can be difficult for a stay-at-home parent who is taking time out of the workforce, or anyone who isn't an active participant in an employer-sponsored plan, to keep his or her retirement savings on track. Fortunately, a working spouse can contribute up to $5,500 to his or her own IRA and up to $5,500 more to a spouse's IRA (in 2018), as long as the couple's combined income exceeds both contributions and they file a joint tax return. An additional $1,000 catch-up contribution can be made for each spouse who is age 50 or older. All other IRA eligibility rules must be met.

Contributing to the IRA of a nonworking spouse offers married couples a chance to double up on retirement savings and might also provide a larger tax deduction than contributing to a single IRA. For married couples filing jointly, the ability to deduct contributions to the IRA of an active participant in an employer-sponsored plan is phased out if their modified adjusted gross income (MAGI) is between $101,000 and $121,000 (in 2018). There are higher phaseout limits when the contribution is being made to the IRA of a nonparticipating spouse: MAGI between $189,000 and $199,000 (in 2018).

Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution to the account of a nonparticipating spouse. You can make IRA contributions for the 2018 tax year up until April 15, 2019.

Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.



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What is the employment situation report, and why is it important to investors?

Each month, the Bureau of Labor Statistics publishes the Employment Situation Summary report based on information from the prior month. The data for the report is derived primarily from two sources: a survey of approximately 60,000 households, or about 110,000 individuals (household survey), and an establishment survey of over 651,000 worksites.

Results from each survey provide information about the labor sector, including the:

- Total number of employed and unemployed people
- Unemployment rate (the percentage of the labor force that is unemployed)
- Number of people working full- or part-time in U.S. businesses or for the government
- Average number of hours worked per week by nonfarm workers
- Average hourly and weekly earnings for all nonfarm employees

According to the Bureau of Labor Statistics, when workers are unemployed, they, their families, and the country as a whole can be negatively impacted. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for yet other workers.

Investors pay particular attention to the information provided in this report. For instance, a decreasing unemployment rate may indicate an expanding economy and potentially rising interest rates. In this scenario, stock values may rise with expanding corporate profits, while bond prices may fall for fear of rising interest rates. Advancing wages may also be a sign of higher inflation and interest rates, as well as greater economic productivity.

Generally, the Employment Situation Summary report provides statistics and data on the direction of wage and employment trends — information that can be invaluable to investors.

What is gross domestic product, and why is it important to investors?

GDP, or gross domestic product, measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. In essence, GDP is a broad measure of the nation's overall economic activity and serves as a gauge of the country's economic health. Countries with the largest GDP are the United States, China, Japan, Germany, and the United Kingdom.

GDP generally provides economic information on a quarterly basis and is calculated for most of the world's countries, allowing for comparisons among various economies. Important information that can be gleaned from GDP includes:

- A measure of the prices paid for goods and services purchased by, or on behalf of, consumers (personal consumption expenditures), including durable goods (such as cars and appliances), nondurable goods (food and clothing), and services (transportation, education, and banking)
- Personal (pre-tax) and disposable (after-tax) income and personal savings
- Residential (purchases of private housing) and nonresidential investment (purchases of both nonresidential structures and business equipment and software, as well as changes in inventories)
- Net exports (the sum of exports less imports)
- Government spending on goods and services

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a specific period and can play a role when making financial decisions. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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