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401(k) UPDATE

WINTER 2019

Growing Your 401(k) Plan

Your 401(k) plan's ultimate size is primarily a function of two factors — how much you contribute and how much you earn on those contributions. Of course, you know you should contribute the maximum amount possible ($18,500 in 2018 and $19,000 in 2019 plus a $6,000 catch-up contribution for individuals over age 50, if permitted by the plan). But what steps should you take to maximize your returns? Consider these tips:

✔ **Take advantage of employer-matching contributions.** Contribute at least enough to take full advantage of any matching contributions. You simply lose the money if you don't use it. A 50% match on your contributions is the equivalent of earning 50% on your money in the first year. If you plan to contribute the maximum and your employer matches contributions, have the amount taken out of your pay uniformly throughout the year. Most employers match contributions as they are made, so you could forgo some matching if you reach the limit before year-end. For instance, assume you earn $150,000, your employer matches 50 cents per dollar on up to 6% of your pay, and you contribute 19% of your pay in 2019. After two-thirds of the year when you have earned $100,000, you will have contributed the maximum of $19,000, and your employer will have contributed $3,000. If you contribute 12.7% of your pay instead, your contributions will be spread throughout the year and your employer will contribute $4,500, an additional $1,500 match.

✔ **Select your investment alternatives carefully.** Since you are responsible for investment decisions, understand any alternatives and review all available information before making choices. Keep in mind the long-term nature of your retirement goal and select investments for that time period. For most participants, that will mean

Continued on page 2

Dreams and Goals: What's the Difference?

A dream is a vision that inspires you to work hard, smart, or both. As pleasant as the dream may be, however, it lacks specificity. Specifics are for goals and plans of action. A financial goal and plan of action to meet it sounds like this: I'm going to retire when I'm 65 years old, with a lifestyle that costs $150,000 a year in today's dollars, and maintain it, adjusted for inflation, for as long as I live. Of that amount, $120,000 is going to come from my personal savings, so I need to save a total of $1.7 million. That means I have to save $40,000 a year, and my savings have to earn 8% a year, pretax.

To summarize: a financial goal consists of 1) a date by which time you'll need 2) a specific amount of money that 3) lasts a specific amount of time. The action plan calls for: 1) setting aside a specific amount of money, 2) investing it to achieve a specific rate of return, and 3) monitoring your progress and making necessary course corrections.

What good goal setting comes down to is making fairly reliable projections of what your financial goals are going to cost in the future and when that future will arrive. Please call if you'd like to discuss this in more detail. ❍❍❍

Growing Your 401(k)

Continued from page 1

that a significant portion of their portfolio should be invested in growth alternatives, such as stocks.

✔ **Rebalance periodically.** Numerous studies have found that rebalancing reduces portfolio volatility, often with increased returns. By rebalancing, you are following a fundamental investment principle — you are buying low (those investments that are underperforming) and selling high (those investments that are performing well). Remember that you set your asset allocation strategy because you believed those were the appropriate percentages of various investments you should own. Thus, you need to make rebalancing a habit so your portfolio doesn't become more risky than intended. Since your 401(k) plan is tax deferred, there are no tax ramifications to buying and selling within the account.

✔ **Limit the amount of company stock owned.** Purchasing too much company stock is risky. Not only is your job and livelihood tied to the company, but your retirement savings are also tied to the same company. It is generally recommended that any one stock not comprise more than 5% to 10% of your portfolio's value. If you own company stock in your 401(k) plan, look at how much of your total balance it represents. Take steps to immediately reduce that percentage if it is over 10%.

✔ **Don't borrow from your 401(k) plan.** While it may be comforting to know you can gain access to your 401(k) fund when needed, only borrow as a last resort. It's true that you are borrowing from yourself and will pay interest to yourself, but there are also hidden costs to this borrowing. When you borrow, some of your investments are sold. While your loan is outstanding, you miss out on any capital gains or other income those investments may have earned. Interest rates are typically very reasonable, often prime rate or a couple of points over prime. That makes it easier to pay back the funds but could mean your 401(k) account is earning lower returns than if it was invested in other alternatives. Also, if you leave the company while a loan is outstanding, you must repay the entire balance within a short period of time or the loan will be considered a distribution, subject to income taxes and the IRS 10% early withdrawal penalty if you are under age 59½ (55 if you are retiring). ❍❍❍

4 Steps to Build Financial Confidence

Below are four simple suggestions that can help you increase your financial confidence, so you'll know you're making smart decisions for yourself, your family, and your future.

1 Get organized. Credit cards, home-equity lines of credit, student loans, 401(k)s and IRAs, 529 plans for college expenses — the list of things to keep track of seems endless. It's easy for things to get lost or overlooked. That can lead to mistakes that can weaken your financial confidence. Getting organized will give back a feeling of control. There are numerous strategies for getting organized. The best approach for you depends on your specific situation and personality. Whatever solution you choose, you'll need to know all the details of your finances — how much you bring in, how much you owe, how much you're worth, and how much you're saving.

2 Get educated. Simply taking the time to learn more about finances and managing your money can do wonders for how you feel about your life. Basic financial literacy isn't really covered in most schools' curriculum, so many otherwise savvy adults are clueless in this area. Many community colleges, churches, and nonprofit groups offer classes, or you can sign up for a class online.

3 Get a financial plan. Making financial decisions on a day-to-day basis with no larger purpose or focus in mind may work for some people, but it's not likely to help you become financially confident. If you don't have any idea what might (or what you want to) happen, you're not likely to be very confident about your future. To achieve true financial confidence, you need a plan. Setting goals and making meaningful progress toward those goals will help boost your financial self-esteem. Having a financial plan will also help you prepare to cope with an uncertain world. Why is a financial plan so important? It brings together all the threads of your financial life. Having a solid financial plan in place that covers everything from preparing for emergencies to planning for retirement is key to boosting your financial confidence.

4 Get help. Getting reliable advice from an outside expert can improve your financial confidence. Just like a doctor supports and guides you in making decisions about your health and a personal trainer is there to encourage and motivate you to get fit, a financial advisor is there to make sure you're sticking to your financial plan. Even if you're organized and financially savvy, there are many decisions that are difficult to make on your own, from deciding how much to save for retirement to choosing investments for your portfolio. ❍❍❍

Watch Out for Retirement Derailers

To make sure your retirement isn't derailed, consider these tips:

1. Start saving now. Because of the power of compounding, starting to save for retirement just a few years earlier can make a huge difference at the end.

2. Save now to spend later. This is where it's critical to make a budget for current expenditures, a retirement budget, and a plan for retirement. That plan may involve trimming current expenditures, scaling back retirement expectations, or both.

3. Prepare a retirement plan. Unless you plan to work until the day you die, a retirement plan should be an integral part of your overall financial plan. Think seriously about where you might want to spend your money before or during retirement — like helping out grown children or grandchildren — and then build that into your retirement plan. Obviously unexpected circumstances do arise, but if you can anticipate your children or grandchildren might need help and are willing to help them, put that into your financial plan.

4. Review the implications of taking Social Security benefits before reaching full retirement age. For people who were near retirement age when the Great Recession hit and lost their jobs, taking Social Security at age 62 probably seemed like a far better idea that trying to get a new job at that age. But it's important to understand that while the government will let you start taking benefits at age 62, it will penalize you for it: for an individual born in 1960 or later who retires at age 62 instead of full retirement age, monthly benefits will be reduced by 30%.

5. Have a candid conversation with your parents or other family members who may need care. Talk about how they'll want to be cared for and the means they may have to pay for such care. Urge them to consider long-term-care insurance, which can greatly ease the financial burden of paying for care.

If you have already been impacted by a retirement detailer — or any other circumstance that has impacted your retirement plans, here are five ways you can get back on track:

1. Take advantage of catch-up provisions. If you are 50 or older, you can contribute more tax-deferred income to a 401(k) or IRA (catch-up contributions). In 2018 and 2019, you can contribute $6,000 extra to a 401(k) or 403(b) plan and $1,000 more to an IRA.

2. See where you can trim expenses to save more. Boosting your savings to get back on track for retirement might be easier than you think: most of us spend more than we realize on discretionary things like meals out, clothing, travel, and other personal expenditures. Take a hard look at your budget and see where you can cut back — even $100 per month can make a difference in your retirement savings.

3. Evaluate your investment choices. Review your current asset allocation. If you haven't recently reassessed your asset allocation, you're probably missing out on significant investment opportunities. That said, you want to ensure your asset allocation is appropriate (not too heavy in equities) given your age and target retirement date.

4. Reevaluate your retirement lifestyle. Most financial advisors recommend that you be able to replace at least 70% of your pre-retirement income during retirement. So if you planned to spend 85% of your current income in retirement, you might be able to scale back and still retire comfortably.

5. Work longer. When Social Security was created in 1935, the average American 65-year-old man could expect to live to age 78 and the average American woman to 80. Today, the average American 65-year-old man can expect to live to 84.3 and the average American 65-year-old woman to 86.6 (Source: Social Security Administration, 2017). In that context, working five more years might not be such a sacrifice — and it can make a big difference in the retirement lifestyle you can afford. For a 60-year-old who has a retirement account balance of $250,000 today and contributes $2,000 a year, pushing retirement back from age 65 to age 70 would yield an additional $158,410 in total savings (not counting Social Security) — adding $300 per month to his/her retirement income.
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Which Goal Is More Important?

With limited resources for saving, which is the most important financial goal — saving for your retirement or your child's college education? While many parents want to pay the entire cost of their children's college educations, the reality is that there are a variety of ways to save for those educations. Unfortunately, there aren't similar options for your retirement. You may want to maximize your retirement savings, realizing there are ways to use those savings to help with education costs. How can that strategy help when it comes time to send your child to college?

✔ The federal financial aid formula does not consider retirement accounts, including 401(k) plans and individual retirement accounts (IRAs), when calculating your expected family contribution. For other assets, the formula assumes that 5.6% of the parents' assets and 20% of the student's assets will be used annually for college costs. Thus, you may actually increase your financial aid award by saving in retirement accounts.

✔ You can still use retirement assets to help pay for college costs. Money in IRAs can be withdrawn to pay higher-education expenses before age 59½ without incurring the 10% federal income tax penalty, although income taxes will be assessed on the taxable portion of the distribution. If the money is withdrawn from a Roth IRA, your contributions can be withdrawn at any time without penalty or taxes, while earnings can be withdrawn before age 59½ by paying income taxes but not the 10% tax penalty. With 401(k) plans, you typically can't withdraw money before retirement age unless it is for a hardship withdrawal, but you can borrow funds if permitted by the plan. If you don't need the money to finance college costs, you can leave it in your retirement plans to continue to grow. ❍❍❍

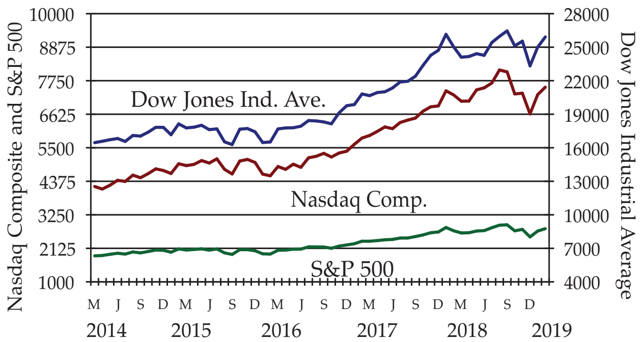
Market Data

	Month End			% Change	
	Feb 19	Jan 19	Dec 18	YTD	12-Mon.
Dow Jones Ind.	25916.00	24999.67	23327.46	11.1%	3.5%
S&P 500	2784.49	2704.10	2506.85	11.1	2.6
Nasdaq Comp.	7532.53	7281.74	6635.28	13.5	3.6
Wilshire 5000	28824.88	27905.54	25724.51	12.1	3.0
Gold	1319.15	1323.25	1281.65	2.9	0.1
				Dec 17	Feb 18
Prime rate	5.50	5.50	5.50	4.50	4.50
Money market rate	0.61	0.59	0.56	0.33	0.30
3-month T-bill rate	2.41	2.38	2.47	1.45	1.65
20-yr. T-bond rate	2.86	2.91	3.03	2.66	3.03
Dow Jones Corp.	4.08	4.16	4.40	3.13	3.63
Bond Buyer Muni	4.06	4.12	4.08	3.88	4.01

Sources: *Barron's, Wall Street Journal*

Stock Indices

March 2014 to February 2019



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Full retirement age for Social Security benefits vary from age 66 for individuals born in 1954 to 67 for individuals born in 1960 or later. Retiring at age 62 results in a 25% reduction in benefits, while retiring at age 70 results in a 32% increase in benefits. Despite that, 42% of men and 48% of women retire at age 62 with decreased benefits and only 2% of men and 4% of women retire at age 70 with increased benefits. About 34% of men and 27% of women retire at full retirement age (Source: *Wealthmanagement.com*, April 2018).

The average equity mutual fund investor underperformed the S&P 500 by 4.7% in 2017. It is estimated that 50% of the investor shortfall for equity and fixed-income investors is due to psychological factors (Source: Dalbar, 2018).

If you retire at age 65, you have a 25% chance of living past age 90 (Source: *Forbes*, 2018).

Approximately 83% of retirees want to stay in their own homes as they age (Source: *Forbes*, 2018).

When asked what they would do with a $10,000 windfall, only 36% of respondents said they would set it aside for retirement (Source: The Pew Charitable Trusts, February 2018). ❍❍❍