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S U C C E S S

WINTER 2019

## Securing Your Financial Life

**W**hile there might not be much we can do on an individual level to reduce crime, war, or even stock market corrections, we can take all appropriate steps to mitigate the risks under our control. Consider these tips to increase financial security:

✓ **Get your estate in order.**

While dealing with your own mortality is often difficult, it is one of the most important things you can do to ensure your family can survive financially in the event of your death. Make sure your will reflects your current desires for the disposition of your assets and names a guardian for your minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated, and a healthcare proxy,

which delegates healthcare decisions when you are unable to make them.

✓ **Review your portfolio.** If you're saving for goals that are decades away, stocks probably should continue to hold a major position in your portfolio. A properly diversified portfolio will help protect its value during market declines while still offering higher return potential.

✓ **Take another look at your life insurance.** You need to pur-

chase an appropriate amount of insurance to protect your family in the event of your death. The amount needed will depend on your current net worth, the lifestyle you want to provide for your family, and your personal circumstances and desires.

✓ **Obtain sufficient disability income insurance.** You should consider disability income insurance if your current assets won't support you until age 65. Many

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### Are You Saving Enough for Retirement?

**W**hen trying to determine how much you will need to save for your retirement, you will need to think about the following:

**Consider how much you have already saved.** While it is better to start early, it is never too late to start saving for your retirement.

**Decide how many more years you are planning to work.** The longer you are earning and contributing to, rather than drawing from, your savings, the more money you will have when you retire. This means that even if early retirement looks tempting, it is generally a good idea to work as long as possible.

**Calculate your estimated Social Security benefit...**but remember that it is supposed to supplement your retirement savings, not comprise the bulk of your retirement income.

**Determine how much income you will need to live comfortably in retirement.** First and foremost, decide on what kind of housing situation you plan to be in. Also consider what discretionary expenses you will have in retirement. Please call if you'd like to discuss whether you're saving enough for retirement. ○○○



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## Financial Life

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companies provide short-term disability insurance, which covers 100% of your salary for three to six months. Long-term disability insurance is typically less common and less generous. Thus, even if you have long-term disability insurance at work, you may want to obtain additional coverage. Your available resources and disability benefits should equal at least 60% of your pretax salary.

✓ **Make sure you have an emergency cash reserve.** Consider setting aside at least three to six months' of living expenses, although the exact amount will depend on your age, health, job outlook, and borrowing capacity. This can help tide you over in case of a job layoff, short-term disability, or large, unexpected expenditure.

✓ **Consider long-term-care insurance.** This coverage may be especially important for women, who tend to outlive their husbands. You should probably purchase the insurance while you are in your 50s or 60s. After that, premiums get much more expensive. If you develop a serious health condition, you may not be able to get insurance.

✓ **Protect your financial identity.** While you typically won't have to pay for anything charged by an identity thief, you will have to work to restore your credit and ensure all fraudulent accounts are closed. That can be time-consuming as well as expensive. To help protect your financial identity, only give out your Social Security number when it is required, shred financial documents, cut up old credit cards, and review your credit reports periodically.

✓ **Keep your homeowners insurance up to date.** Review your homeowners policy carefully so you understand what would happen if your home was totally destroyed. It is your responsibility to make sure you have adequate policy limits, so

## A Portfolio Tune-Up

Over time, the weighting of the asset classes in your portfolio can change. A simple rebalancing may be all that is needed to get your portfolio back in line.

Since different investments earn various rates of return, their values grow at different rates, changing the weightings in your portfolio. These changes can cause your portfolio risk to increase or decrease, making rebalancing a necessary part of portfolio maintenance.

While you should definitely rebalance when your financial objectives or life circumstances change, you also want to rebalance on a regular basis. There are three basic methods to consider:

✓ **Rebalance annually.** Choose a date to rebalance, perhaps at the beginning of the year, when you receive your annual statements, or at the end of a quarter. On that date every year, compare your current allocation to your target allocation. Any allocations off by more than 5–10% would require rebalancing. Once you have rebalanced, don't be tempted to make other changes during the year.

✓ **Rebalance when your allocation differs from your target allocation by a designated percentage.** With this type of rebalancing, you monitor your portfolio

more frequently, perhaps monthly. Once your allocation moves from your target allocation by a predetermined percentage, perhaps 5–10%, you rebalance your portfolio.

✓ **Rebalance based on current market conditions.** With this approach, rather than one specific percentage for each asset class, you might have a target range. For instance, you might allocate anywhere from 30–50% of your portfolio to large-capitalization stocks. Depending on your views of the market, you might want to allocate near the low or high end of that range.

There are many ways to accomplish changing your allocation among investments. You can purchase additional amounts of an investment that is underrepresented in your portfolio. You can sell investments in overrepresented portions and invest the proceeds in underrepresented portions. Any withdrawals can be taken from overweighted investments. Income from your portfolio, such as dividends and interest, can be invested in underweighted investments. Ultimately, you'll need to consider tax ramifications and your own individual investment preferences. Please call if you would like help rebalancing your portfolio. ○○○

inform your insurance company when you make major improvements, get an inflation rider, and make sure your policy covers the total cost of rebuilding your home.

✓ **Protect your home.** Obtain a good security system for your home. Make sure all doors are metal or solid wood with deadbolt locks, use bars or locks to secure sliding glass doors, and keep all entrances well lit.

✓ **Properly store important documents.** Documents you might need when banks are closed, such as passports, birth certificates, wills, or insurance policies, can be kept in a fireproof home safe. Other documents, such as deeds, stock certificates, and titles, should be kept in a safe deposit box in a bank.

Please call if you'd like to review these tips in more detail. ○○○

## 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 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 \$18,500 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 18.5% of your pay. After two-thirds of the year when you have earned \$100,000, you will have contributed the maximum of

\$18,500, and your employer will have contributed \$3,000. If you contribute 12.3% 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 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).

Please call if you'd like help with decisions involving your 401(k) plan. ○○○



## Key Components of Your Financial Plan

**A** financial plan is critical to realizing your dreams, ensuring your needs are met, and being able to plan for the unexpected. Following are the key components of a strong financial plan:

**Goals** — Defining goals establishes the direction of your plan. You will want to be as specific as possible to ensure they are achievable and measurable.

For example, “save for retirement” is too vague, because it does not define how much you need to save or the period of time you have to achieve the goal. A better way to define the goal would be: save \$500,000 for retirement within the next 25 years. This will allow you to better determine if it’s achievable and track your progress.

**Financial Position and Cash Flow** — Preparing a statement of your financial position by listing all of your assets and liabilities will define your net worth. A cash flow statement will show all your income and expenses that occur on a regular basis.

Both of these statements are important, because you need to understand your financial situation to create the appropriate goals and

strategies in your financial plan. They will also help you track progress toward your goals, as well as identify changes in your financial situation.

**Risk Management** — The best-laid plans can go astray, and that is why your plan should address risk. Unexpected events do happen, and your plan can address this with various types of insurance, as well as savings and investment strategies. You should evaluate various insurance products such as life, disability, liability, health, and long-term-care insurance to determine what you need to ensure you are protected.

**Investment Strategy** — Your investment strategy should embody all of the other components of your plan. It should clearly reflect your goals and financial situation and also balance risk with the investment return you need.

**Review and Refine** — Financial planning never ends because your life always changes. You should review your plan on a regular basis to ensure it is in line with your goals, financial situation, and risks.

Please call if you’d like to discuss this in more detail. ○○○



## Before Taking Money Out

**B**efore you withdraw money from an IRA, you should ask these important questions:

**Am I retired?** If you are taking money out to go on a vacation or make improvements to your home, any amount you withdraw before you retire will not be there when you actually retire. So you need to think long and hard before dipping in before you retire.

**Are there other income sources?** The more money you have in your retirement account, the more potential you have to generate growth, so you should try to find other sources if you need money. There may be times when you’re thrown a curve ball and need to dip into the funds, but this should always be the last resort.

**Do I really need the money?** Once distributions can be taken without a penalty, some people think it’s open season to start withdrawing money. While you’ve worked hard to save that money, just remember to think about the consequences. Any withdrawals you take before retirement could end up limiting your income later in life when you no longer have a paycheck. ○○○

## Financial Thoughts

**A**ccording to a recent study, the likelihood of placing more emphasis on a low probability outcome and underestimating the chance of a high probability outcome is greater for those who lack sleep or experience poor sleep quality. Poor sleep quality is also inversely related to loss aversion (the unwillingness to incur a loss). Those who have a harder time falling asleep are more likely

to take a smaller payout now than wait for a large payoff in the future (Source: *AAIL Journal*, July 2018).

Planning for retirement is commonly focused on the accumulation of wealth, but having a plan for transitioning to and living in retirement is also important. However, many common mistakes are made in planning for life during retirement, including:

failing to adequately budget, overestimating how much can be withdrawn (a common guideline is 4% the first year adjusted for inflation in subsequent years), not planning out how retirement time will be spent, relying on rules of thumb for things like how much should be saved or withdrawn, and having an incorrect allocation (Source: *AAIL Journal*, July 2018). ○○○