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Nurture Your IRA

It's tempting to pay little attention to an individual retirement account (IRA). After all, with a maximum contribution of $5,500 in 2015 ($6,500 if you are over age 50), how much can an IRA contribute to the vast sums you'll need for retirement? The answer is plenty, especially if you follow these tips:

✔ **Start contributing as soon as possible.** That way, tax-deferred or tax-free compounding of earnings can have a dramatic impact on your IRA's ultimate value. Consider the following example: Four individuals, ages 20, 30, 40, and 50, each contribute $5,000 to an IRA this year. How much will that amount have grown when each person reaches age 65, assuming an 8% annual rate of return? The 50-year-old will potentially have $15,861, the 40-year-old will have $34,242, the 30-year-old will have $73,927, and the 20-year-old will have $159,602. Compounding of earnings turned the 20-year-old's contribution into a much larger balance.*

✔ **Contribute every year until you reach retirement.** Even if you can't afford the maximum contribution, contribute something every year. Over a period of time, a modest investment program can grow to a significant sum. Assume that at age 30 you starting contributing $5,000 per year to an IRA, earning 8% compounded annually. After one year, you'll have only $5,400. But that will grow to $29,333 after five years, $72,433 after 10 years, $228,810 after 20 years, and $861,581 after 35 years, when you turn age 65.* *(Keep in*

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A Tax-Planning Perspective

With marginal income tax rates of up to 39.6%, income taxes can have a significant effect on your financial situation. There are basically three strategies that can help reduce your income tax bill:

1. **Reduce or eliminate taxes.** The objective is to receive income in a nontaxable form or to find additional tax deductions, exemptions, or credits. Or investigate investments that generate capital gains, such as growth stocks. Gains are not taxed until the investment is sold; and if held for over one year, capital gains are subject to the capital gains tax rate.

2. **Postpone the payment of income taxes until sometime in the future.** By postponing tax payment, your earnings compound on the entire balance, including the portion that will eventually be paid in taxes. You may also be in a lower tax bracket when the taxes are paid.

3. **Shift the tax burden to another individual.** The objective of this technique is to transfer assets to other individuals so any income on those assets becomes taxable to those individuals. Typically, however, you have to give up control of the asset. OOO

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Nurture Your IRA

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mind that an automatic investing program, such as dollar cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investments, consider your financial ability and willingness to continue purchases through periods of low price levels.)

✔ **Select investments with care.** Your IRA should be a long-term investment vehicle for retirement, so your investments should be appropriate for that long time frame. Even modest changes in your rate of return can substantially impact your IRA's ultimate value. For example, assume you have $10,000 in your IRA that will be invested for 30 years. If you earn an average rate of return of 6% compounded annually, your balance will equal $57,435. Increase that return to 8%, and your ending balance will equal $100,627, a difference of $43,192.*

✔ **Fund your IRA at the beginning of the year, rather than at the end of the year.** This allows your contributions and earnings to compound for a longer period. For example, assume you are 30 years old and make a $5,000 IRA contribution at year-end for 35 years. If you earn 8% compounded annually, your IRA balance would equal $861,584 at age 65. Make the contribution at the beginning of the year instead, and your balance would equal $930,511, a difference of $68,927.*

Please call if you'd like to review strategies to help maximize your IRA's value. OOO

** These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment. They do not take into account the effects of commissions or any taxes that may be due.*

Do You Need Life Insurance?

Life insurance is one of those things many people know they probably need, but they don't really want to think about. After all, considering life insurance involves planning for what will happen after we're gone — an uncomfortable subject for many people.

But life insurance is actually a key part of your financial plan. While not everyone needs to buy this type of insurance, everyone should think about it and make a considered decision about whether it's something they need to purchase.

Anyone who has people dependent on them financially or who would be negatively affected by their death should consider buying life insurance. If you have children, a spouse who doesn't work, family members who have cosigned on your student loans or mortgage, or elderly parents you care for, life insurance can help ensure that these people don't face additional financial burdens during an already difficult time.

When might you be able to forego life insurance? If you're single, have no dependents, and have little debt, life insurance may be unnecessary. If you're retired, you may also no longer need the protection that life insurance provides, since your retirement assets will theoretically be enough to provide for your loved ones after you're gone. However, if you are retired and support a spouse, children, or others who would have difficulty getting by financially after your death (perhaps because you receive a generous pension benefit today that will shrink or disappear after your death), you may still want to consider insurance.

Life insurance can also be an estate-planning tool. If you have a large estate and are worried about the effect estate taxes will have on what you leave to your heirs, the proceeds of a life insurance policy can be used to cover those expenses.

Even if you may not have needed life insurance in the past, it's important to remember your life insurance needs can change over time. Generally, whenever you experience a major life event, it's a good idea to review your life insurance needs. Events that might trigger a need to buy a new policy or increase your coverage include getting married, having a baby, buying a house, getting divorced, or receiving a major promotion or raise at work.

The amount of life insurance coverage you need depends on your specific situation. Some may simply tell you to buy coverage worth eight or 10 times your annual income, but that's not always an accurate estimate of your actual needs. A better rule of thumb is to first estimate how much money your loved ones would need immediately after your death to cover your final expenses (such as funeral costs and outstanding debts). Then estimate how much cash your family will need to sustain themselves after your death; that number can be hard to determine, but you should think about your lost income, whether your spouse will be able to continue working, possible college costs for your children, and other expenses. Finally, combine those two numbers to get a sense of your total life insurance needs.

If you're having trouble determining how much life insurance you need to protect your family or you're not sure what type of policy is best for you, please call to discuss your individual needs. OOO

Easing into Retirement

In recent years, talk of longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings have made retiring at a relatively young age seem difficult. More and more people are coming to the conclusion that either retiring later or continuing to work during retirement is necessary to ensure that they remain financially comfortable for the rest of their lives.

Working doesn't necessarily mean you have to stay with your current employer. Rather, many individuals are taking on totally different jobs that can allow them to try something new, provide more free time by working less, or ensure less stress. Besides the nonfinancial reasons for working, there are several financial reasons that make this an important retirement strategy:

✔ **You have more time to save.** Each additional year you work is an additional year you can continue to save for retirement.

✔ **You shorten your retirement period.** The longer you work, the less time you'll spend in retirement, which means you'll need less money to fund that retirement.

✔ **You can delay Social Security benefits.** Each additional year you wait to take Social Security benefits, up to age 70, will permanently increase your monthly benefit.

✔ **You keep health insurance benefits.** One of the most significant costs in retirement is health care, and you can delay that cost by working at a job that provides this benefit.

Some companies are helping employees with retirement issues by allowing phased retirement, in which hours are gradually reduced until full retirement. If your employer offers a phased retirement program, find out these details before signing up:

✔ **How will phased retirement affect your benefits?** Many pension benefits are calculated based on your earnings in the last few years of your working career. If you don't want to take pension benefits yet, make sure your pension will be calculated using earnings while you worked full-time. You may also be able to draw a pension and work part-time.

✔ **What will happen to your salary with reduced hours?** Will you receive a pro-rata share of your pay or will a different pay scale be used? Will you be entitled to pay increases in the future? Make sure you agree on how you will be paid before moving to part-time status.

✔ **Will you be eligible for health insurance benefits?** Find out the company's policy regarding health insurance benefits for part-time workers. This will be especially important if you move to part-time status before age 65, since you won't be eligible for Medicare.

✔ **What other details should you investigate?** Make sure there is a mutual understanding about your hours. Can you take time off to travel? Is this a permanent or short-term arrangement? If you don't like part-time work, can you go back to your full-time job?

If your employer doesn't offer a phased retirement program or you want to try something new, investigate your options before quitting your job. Some factors to consider include:

✔ How do you plan to spend your retirement? If you plan to travel a lot, how will work fit into that schedule? If you plan to split your time between two homes in two locations, how will you be able to work?

✔ What interests you? Would you be happier pursuing a job that takes advantage of skills from your current job, or would you like to try something totally different? Do you need to obtain additional skills or go back to school?

✔ Do you want a job with significant responsibility, or are you trying to reduce the stress in your life?

✔ Are you passionate about an interest or hobby that you may be able to turn into a business? Do you want to start your own business? If so, do you have the financial resources, without risking funds for your retirement?

✔ Is there a cause that is important to you? Is it time to move to the nonprofit sector, finding an opportunity that matters to you on a personal level?

Retirement is in the midst of being redefined once again. The last generation was able to retire to a life of total leisure due to the generosity of company pension benefits and Social Security. But longer life expectancies, less-generous benefits, and declining asset values mean it is time to redefine retirement. What many are seeking is not so much total leisure as more leisure or a more meaningful lifestyle. Many are finding that those goals can be accomplished while still working, with those additional working years providing more financial security. If you'd like to discuss work and its role in your retirement, please call. OOO

Financial Thoughts

When asked what their worst financial habits were, 14% of respondents said spending more money than they made, 28% said spending too much on unnecessary things, and 23% said not saving any money (Source: Allianz LoveFamily-Money Study, January 2014).

The average dollar amount spent before discussing it with a spouse is $396 for women and $1,231 for men (Source: Experian Credit Score Marriage Survey Report, 2014).

The risk of early death is 32% higher for single men than married men and 23% higher for single women than married women. The average married man outlives the average unmarried man in the United States by eight to 17 years (Source: *American Journal of Epidemiology*, March 2015).

Young men and women of married parents living in intact homes are 44% more likely to graduate from college (Source: *REP.*, March 2015).

In 2014, the average cost of an American wedding was $29,858. The average amount couples spent on an engagement ring was $5,598 (Source: *Real Weddings Survey*, 2015).

Divorce reduces the average person's wealth by 77% (Source: *REP.*, March 2015). OOO

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News and Announcements

Hello again friends; where in the world did our Summer go? It certainly seems like a few weeks ago it was Opening Day of a miserable season for the White Sox, and last week were fireworks on Kathy Meyer's boat. Fall weather brings harvest time to many of our clients/friends here; my staff and I wish all of you a safe and bountiful season.

Fall always seems to put me in a contemplative mood. Like I said before, where does time go? It seems like only a year or so ago my dad, George, retired; in reality, it was five years ago. Now, more than a few of you have asked me when "I'm" going to retire. I can assure you it will not be anytime soon. I'm 58, and you can only ride a bike or watch the White Sox for so long. With that in mind, I found the article on page 3 "Easing into Retirement" very interesting. I think you will also. Honestly, the more I think about this, for those of you who know (and love) my Dad, he does play golf every day. He's only 84 and still routinely wins when we play together. So, maybe I could ride my bike every day.

We have a lot going on at WFS, and I'd like to briefly tell you a couple of things. First, we have three new employees. Jenny is at the front desk, and she is the delightful voice answering the phone. Alexis is the new Administrative Assistant to Brad and our other new team member, Dan Mulligan. Do not, under any circumstances, play golf against Dan or Eddie Vyverberg for anything other than pennies!

Our Life Insurance Division has simply taken off. Under the lead of Brad and Kara, they are "hitting it out of the park" like the White Sox should have. I would be remiss if I didn't mention the article on Page 2 "Do you need Life Insurance?" We will not pressure anyone, but please have one of our planners look at and review your old policies and new needs. You will not regret it. Promise!

Finally, I'm writing this on Monday, September 14. This last 30 days have been extremely volatile for the "markets." This is the perfect time to step back and reassess your tolerance for risk. We all remember 2008 and need to honestly discuss strategy with your WFS representative. We will be calling you; but if you are worried or curious, please do not wait — call us at 563-583-6020 or 800-570-6020. No, I'm not worried, I just want to be prepared, patient, long term minded and informed.

No White Sox discussion this quarter; I'm a beaten-down fan! Good Luck to the Cubbies!! Thanks again for your trust and confidence; we really appreciate it.

Jim