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Your Money Management Newsletter

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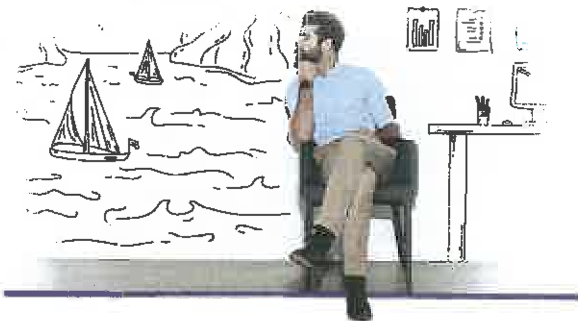
Up FRONT

658 million

Number of unused vacation days by American workers in 2015; about one-third of these days were lost at the end of the year.

Source: The State of American Vacation 2016, U.S. Travel Association



Quick VIEW

ARE YOU CONFIDENT?

The percentage of American workers who are confident about having enough money for a comfortable retirement has risen steadily since 2013.

Source: Employee Benefit Research Institute, 2014, 2016

FAST FACTS

April is National Financial Literacy Month, aimed at highlighting the importance of economic and financial education for students in grades K–12. For information and teaching resources, see the Council for Economic Education website at *councilforeconed.org*.

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Practical insights for your **FINANCIAL GOALS**

MUTUAL BENEFITS: *Funds to Pursue Your Goals*

About 94 million Americans — 43.6% of U.S. households — owned mutual funds in 2016.[1] What's the appeal? It may be that mutual funds offer a convenient way to participate in a wide range of market activity that would be difficult for most investors to achieve by purchasing individual securities.

With more than 8,000 funds to choose from, you should be able to find appropriate investments to pursue your financial goals.[2] The following overview describes some basic types of funds in rough order of risk, from lowest to highest. Investments seeking to achieve higher returns also carry an increased level of risk.

Money market funds invest in short-term debt investments such as commercial paper and CDs. They are typically used as a cash alternative and/or a fund for settling brokerage transactions. *Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although a money market fund attempts to maintain a stable $1 share price, you can lose money by investing in such a fund.*

Income funds concentrate their portfolios on bonds, Treasury securities, and other income-oriented securities, and may also include stocks that have a history of paying high dividends. *Bond funds are subject to the interest-rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Dividends are not guaranteed.*

Balanced funds and **growth and income funds** include a mix of stocks and bonds and seek to combine moderate growth potential with modest income, typically from a combination of bond interest and stock dividends.

Growth funds invest in the stocks of companies that are considered to have a high potential for share-price appreciation but generally have a low emphasis on income. They are more volatile than income funds as well as some broader-based stock funds.

Global funds invest in a combination of domestic and foreign securities. **International funds** invest primarily in foreign stock and bond markets, sometimes in specific regions or countries. There are increased risks associated with international investing, including differences in financial reporting, currency exchange risk, economic and political risk unique to a specific country, and greater share price volatility.

Sector funds invest almost exclusively in a particular industry or sector of the economy. They may offer greater appreciation potential than broad-based stock funds during certain market cycles, but the risk level is higher.

Aggressive growth funds aim for maximum growth. They typically distribute little income, have very high growth potential, tend to be volatile, and are considered to be very high risk.

There are mutual funds covering almost every aspect of the stock and bond markets. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Asset allocation and diversification do not guarantee a profit or protect against investment loss.

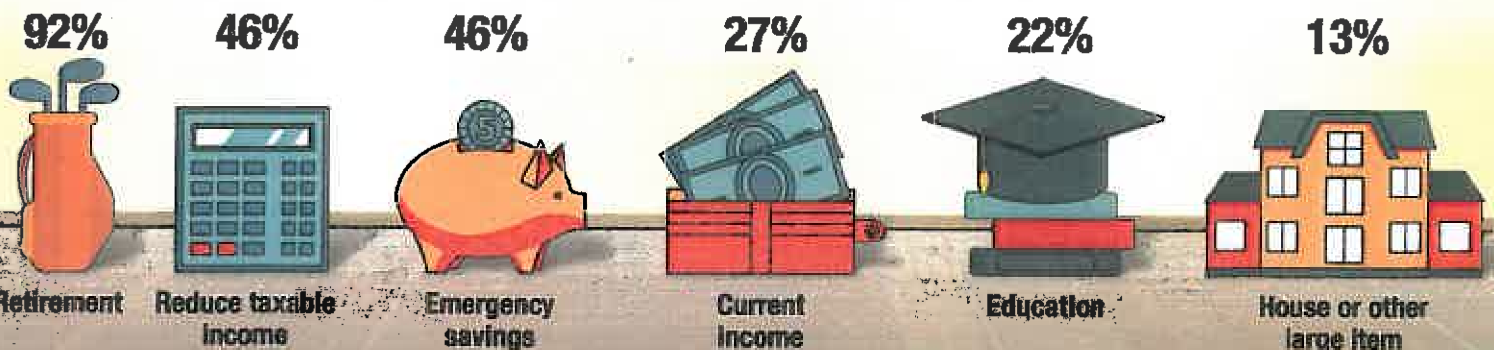
Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) Investment Company Institute, 2016

Reasons to Invest

Seventy-four percent of households who own mutual funds cite retirement as their *primary* reason for investing. However, many investors own funds to pursue multiple financial goals.

Percentage of mutual fund–owning households who cited these reasons for owning funds



The State of **SOCIAL SECURITY**

Sixty-two percent of retirees report that Social Security is a major source of retirement income. By contrast, only 35% of workers expect the program to be a major source of income for them in retirement.[1]

Social Security was never intended to be a retiree's sole source of retirement income, so lower expectations are realistic and could inspire you to save more in your retirement accounts. But low expectations also reflect concern about the future of the program. Only 10% of workers are "very confident" that Social Security will continue to provide benefits equal to those provided to current retirees.[2]

There are good reasons for concern, but Social Security is not in danger of collapsing entirely. Here are some key facts to consider.

CHANGING DEMOGRAPHICS

Social Security retirement and disability benefits are funded by payroll taxes paid by current workers and their employers. As the U.S. population has aged, the number of workers per beneficiary has dropped (see chart). Payroll taxes from current workers are no longer sufficient to pay benefits to current retirees and other beneficiaries.

Social Security taxes and payments are processed through two trust funds, one for the Old-Age and Survivors Insurance (OASI) program and the other for the Disability Insurance (DI) program. When there were more workers per beneficiary, these funds built up reserves; more recently, the reserves have been used to make up the shortfall between payroll taxes and benefits. According to the 2016 Trustees Report, the OASI trust fund reserve will be depleted in 2035, at which point the program will be able to pay only 77% of scheduled benefits. (The DI trust fund reserve will run out earlier, in 2023, after which the program will be able to pay 89% of scheduled benefits.)[3]

POSSIBLE SOLUTIONS

Many ideas have been suggested to address Social Security's fiscal challenges. Here are some commonly cited solutions, with estimates of their impact from the Chief Actuary of the Social Security Administration.[4]

Eliminate or increase the earnings cap. Workers pay Social Security taxes on income up to an inflation-adjusted cap ($127,200 in 2017). Eliminating the cap in 2017 and later years would address 89% of the Social Security shortfall if benefits were not increased for high earners (72% if benefits were increased). Increasing rather than eliminating the cap would have a significant but smaller effect.

Increase the payroll tax. Workers currently pay 6.2% of earnings (up to the earnings cap) into the Social Security system, with employers matching that amount. Increasing the payroll tax to 7.6% for both workers and employers in 2017 and later years would completely eliminate the shortfall.

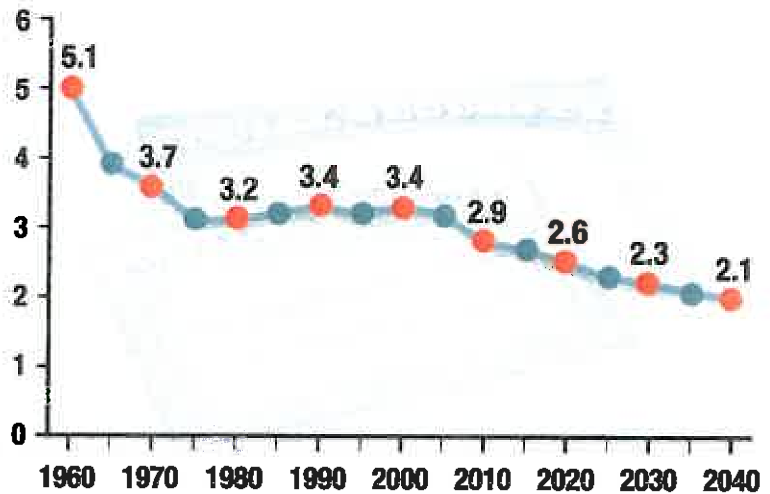
Raise the full retirement age. The current age to claim full Social Security retirement benefits is 66 for individuals born between 1943 and 1954; full retirement age increases gradually to 67 for those born in 1960 and later. Raising the full retirement age to 69 by 2034, with small increases thereafter, would eliminate 40% of the funding shortfall.

Other suggestions include reducing benefits for high earners, using a more conservative measure of inflation for benefit increases, and raising the minimum eligibility age (currently 62).

Congress has been slow to take action, but the clock is ticking. It's likely that any changes would apply primarily to future beneficiaries rather than to those who are eligible for Social Security at the time any changes are adopted.

Dwindling Support

Number of workers per Social Security beneficiary



Source: Social Security Administration, 2016 (2020–2040 data are estimates)

1–2) Employee Benefit Research Institute, 2016
3–4) Social Security Administration, 2016

Use Sense with **STUDENT LOANS**

According to a recent survey, 57% of millennials regret how much they borrowed for college.[1] This doesn't mean they regretted going to college or borrowing at all, but rather that it may be wise to carefully consider the amount of any loans a student might need for higher education.

The numbers can be daunting. In the 2014–15 academic year, 61% of bachelor's degree recipients from public and private nonprofit institutions graduated with an average debt of $28,100. About 5% of borrowers with outstanding student loan debt (including borrowing for graduate school) owed $100,000 or more.[2]

COST-BENEFIT ANALYSIS

On average, college graduates earn more over their lifetimes and have a lower rate of unemployment than those with less education.[3] However, not all college degrees lead directly to a well-paying job. You and your student might weigh the debt necessary to fund a specific educational path against a realistic assessment of the earnings potential after graduation. For example, a student pursuing an engineering degree may be comfortable borrowing more than a student pursuing an education or liberal arts degree.

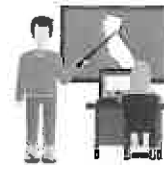
Although too much debt can be suffocating, manageable loans not only could help the family but may help the student feel more invested in the pursuit of education. How much is too much? One guideline suggests that a student borrow less than his or her projected annual starting salary after graduation. Although every situation is different, keeping borrowing to that level should enable the graduate to pay off the loan in 10 years (or less), the standard loan repayment period for federal student loans.[4]

If your student will have to borrow more than he or she could comfortably repay, consider lower-cost alternatives such as a community college for the first two years. You might also explore a degree path that is more likely to yield higher earnings in the future. Of course, increasing your college savings could provide more options for your student and reduce the need for loans. In the class of 2015, 39% of students graduated with no debt at all.[5] That's a good way to start a career.

1) *Journal of Financial Planning*, September 2016
2, 5) College Board, 2016
3) U.S. Bureau of Labor Statistics, 2016
4) Bankrate.com, May 24, 2016

Steps to Affordable Education

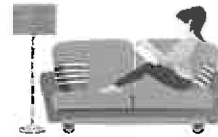
Percentage of students who took these steps to make college more affordable



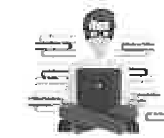
80% **Attended college in home state**

77% **Worked during school year or breaks**

62% **Reduced personal spending**



49% **Lived at home**



27% **Tried to earn degree in shorter time**

Source: Sallie Mae, 2016

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Are you comfortable with the mix of mutual funds in your portfolio? Would you like to discuss other investment options? Call us for an appointment today.

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