# Investment Essentials

Planning Your Financial Future

**Bryan Carroll, William Reepmeyer**
**Reepmeyer & Carroll Group**
385 South Eton • Birmingham • MI • 48009
248-593-3744 • 248-593-3754
bryan.carroll@opco.com • william.reepmeyer@opco.com

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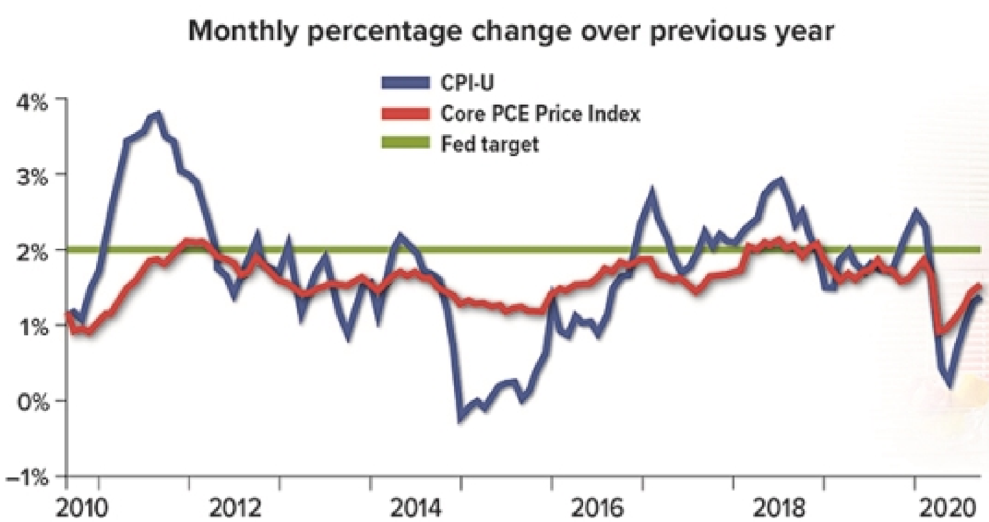
## Different Inflation Measures, Different Purposes

The inflation measure most often mentioned in the media is the Consumer Price Index for All Urban Consumers (CPI-U), which tracks the average change in prices paid by consumers over time for a fixed basket of goods and services. In setting economic policy, however, the Federal Reserve Open Market Committee focuses on a different measure of inflation — the Personal Consumption Expenditures (PCE) Price Index, which is based on a broader range of expenditures and reflects changes in consumer choices. More specifically, the Fed focuses on "core PCE," which strips out volatile food and energy categories that are less likely to respond to monetary policy. Over the last 10 years, core PCE prices have generally run below the Fed's 2% inflation target.




Sources: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis, 2020 (data for the period September 2010 to September 2020)

# Five Tips to Regain Your Retirement Savings Focus in 2021

In early 2020, 61% of U.S. workers surveyed said that retirement planning makes them feel stressed.[1] Investor confidence was continually tested as the year wore on, and it's likely that this percentage rose — perhaps even substantially. If you find yourself among those feeling stressed heading into the new year, these tips may help you focus and enhance your retirement savings strategy in 2021.

**1. Consider increasing your savings by just 1%.** If you participate in a retirement savings plan at work, try to increase your contribution rate by just 1% now, and then again whenever possible until you reach the maximum amount allowed. The accompanying chart illustrates the powerful difference contributing just 1% more each year can make over time.

**2. Review your tax situation.** It makes sense to review your retirement savings strategy periodically in light of your current tax situation. That's because retirement savings plans and IRAs not only help you accumulate savings for the future, they can help lower your income taxes now.

Every dollar you contribute to a traditional (non-Roth) retirement savings plan at work reduces the amount of your current taxable income. If neither you nor your spouse is covered by a work-based plan, contributions to a traditional IRA are fully deductible up to annual limits. If you, your spouse, or both of you participate in a work-based plan, your IRA contributions may still be deductible unless your income exceeds certain limits.

Note that you will have to pay taxes on contributions and earnings when you withdraw the money. In addition, withdrawals prior to age 59½ may be subject to a 10% penalty tax unless an exception applies.

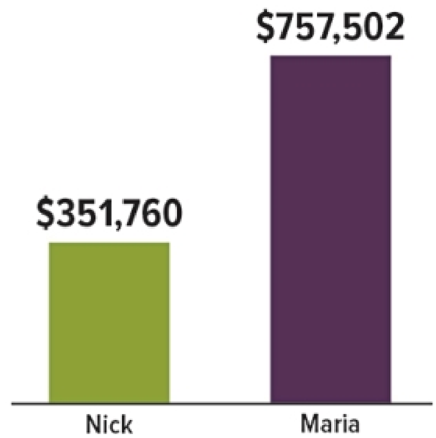
**3. Rebalance, if necessary.** Market turbulence throughout the past year may have caused your target asset allocation to shift toward a more aggressive or conservative profile than is appropriate for your circumstances. If your portfolio is not rebalanced automatically, now might be a good time to see if adjustments need to be made.

Typically, there are two ways to rebalance: (1) you can do so quickly by selling securities or shares in the overweighted asset class(es) and shifting the proceeds to the underweighted one(s), or (2) you can rebalance gradually by directing new investments into the underweighted class(es) until the target allocation is reached. Keep in mind that selling investments in a taxable account could result in a tax liability. Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

**4. Revisit your savings goal.** When you first started saving in your retirement plan or IRA, you may have estimated how much you might need to accumulate to retire comfortably. If you experienced any major life changes during the past year — for example, a change in job or marital status, an inheritance, or a new family member — you may want to take a fresh look at your overall savings goal as well as the assumptions used to generate it. As circumstances in your life change, your savings strategy will likely evolve as well.

### The Power of 1%

Maria and Nick are hired at the same time at a $50,000 annual salary. Both contribute 6% of their salaries to their retirement accounts and receive a 3% raise each year. Nick maintains the 6% rate throughout his career, while Maria increases her rate by 1% each year until she hits 15%. After 30 years, Maria would have accumulated more than double the amount that Nick has.




**Assumes a 6% average annual rate of return.** This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. It assumes a monthly contribution and monthly compounding. Fees, expenses, and taxes were not considered and would reduce the performance shown if included. Actual results will vary.

**5. Understand all your plan's features.** Work-based retirement savings plans can vary from employer to employer. How familiar are you with your plan's specific features? Does your employer offer a matching and/or profit-sharing contribution? Do you know how it works? Are company contributions and earnings subject to a vesting schedule (i.e., a waiting period before they become fully yours) and, if so, do you understand the parameters? Does your plan offer loans or hardship withdrawals? Under what circumstances might you access the money? Can you make Roth or after-tax contributions, which can provide a source of tax-free income in retirement? Review your plan's Summary Plan Description to ensure you take maximum advantage of all your plan has to offer.

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.*

1) Employee Benefit Research Institute, 2020

# Watch Out for These Financial Pitfalls in the New Year

As people move through different stages of life, there are new financial opportunities and potential pitfalls around every corner. Here are common money mistakes to watch out for at every age.

## Your 20s & 30s

**Being financially illiterate.** By learning as much as you can about saving, budgeting, and investing now, you could benefit from it for the rest of your life.

**Not saving regularly.** Save a portion of every paycheck and then spend what's left over — not the other way around. You can earmark savings for short-, medium-, and long-term goals. A variety of mobile apps can help you track your savings progress.

**Living beyond your means.** This is the corollary of not saving. If you can't manage to stash away some savings each month and pay for most of your expenses out-of-pocket, then you need to rein in your lifestyle. Start by cutting your discretionary expenses, and then look at ways to reduce your fixed costs.

**Spending too much on housing.** Think twice about buying a house or condo that will stretch your budget to the max, even if a lender says you can afford it. Consider building in space for a possible dip in household income that could result from a job change or a leave from the workforce to care for children.

**Overlooking the cost of subscriptions and memberships.** Keep on top of services you are paying for (e.g., online streaming, cable, the gym, your smartphone bill, food delivery) and assess whether they still make sense on an annual basis.

**Not saving for retirement.** Perhaps saving for retirement wasn't on your radar in your 20s, but you shouldn't put it off in your 30s. Start now and you still have 30 years or more to save. Wait much longer and it can be hard to catch up. Start with whatever amount you can afford and add to it as you're able.

**Not protecting yourself with insurance.** Consider what would happen if you were unable to work and earn a paycheck. Life insurance and disability income insurance can help protect you and your family.

## Your 40s

**Not keeping your job skills fresh.** Your job is your lifeline to income, employee benefits, and financial security. Look for opportunities to keep your skills up-to-date and stay abreast of new workplace developments and job search technologies.

**Spending to keep up with others.** Avoid spending money you don't have trying to keep up with your friends, family, neighbors, or colleagues. The only financial life you need to think about is your own.

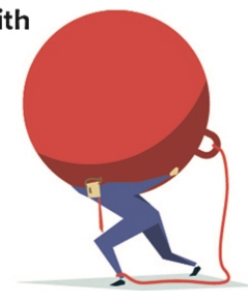
**Funding college over retirement.** Don't prioritize saving for college over saving for retirement. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Closer to college time, have a frank discussion with your child about college options and look for creative ways to help reduce college costs.

**Using your home equity like a bank.** The goal is to pay off your mortgage by the time you retire or close to it — a milestone that will be much harder to achieve if you keep moving the goal posts.

**Ignoring your health.** By taking steps now to improve your fitness level, diet, and overall health, not only will you feel better today but you may reduce your health-care costs in the future.

### The Weight of Too Much Debt

**Approximately 70% of workers with non-mortgage debt say their debt has impacted their ability to save for emergencies and retirement, with 40% saying their debt is a "minor" problem and 21% saying it is a "major" problem.**



Source: Employee Benefit Research Institute, 2020

## Your 50s & 60s

**Co-signing loans for adult children.** Co-signing means you're 100% on the hook if your child can't pay — a less-than-ideal situation as you approach retirement.

**Raiding your retirement funds before retirement.** It goes without saying that dipping into your retirement funds will reduce your nest egg, a significant tradeoff for purchases that aren't true emergencies.

**Not knowing your sources of retirement income.** As you near retirement, you should know how much money you (and your partner, if applicable) can expect from three sources: your personal retirement accounts (e.g., 401(k) plans and IRAs); pension income from an employer; and Social Security at age 62, full retirement age, and age 70.

**Not having a will or advance medical directive.** No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

# Four Tips to Help Avoid Burnout While Working from Home

The coronavirus pandemic has completely changed the corporate landscape. Many companies have transitioned to having a majority of their employees work from home. As a result, long commutes, office lunches, and face-to-face meetings could be a thing of the past.

Even when the pandemic eventually subsides, working remotely may be here to stay. According to a recent survey, three-quarters of adults who are able to work remotely would like to continue doing so at least one day a week after the pandemic is under control.[1]

While working from home has its advantages (e.g., no commuting costs, more flexibility), it also comes with certain challenges (e.g., lack of home office space, dealing with distractions at home). Often these challenges can make it difficult to have a healthy work/life balance. That's why it's important to take steps to help avoid burnout while working at home.

Here are some tips to help you stay on track.

**1. Carve out a dedicated workspace.** Ideally, your work-from-home setup should be located where you can avoid interruptions or distractions. If you don't have a spare room to use for your workspace, try carving out an area for your "office" wherever you can — even a dining room table or a desk in the corner of your bedroom can work.

**2. Stick to a routine.** Just because you aren't going into an actual office each day doesn't mean you should change your normal workday routine. Keeping a set schedule can help you stay focused and allow you to disconnect and wind down once the workday has come to an end.

It can take time to adjust to working from home, but you will eventually fall into a routine that works best for you and allows you to maintain a healthy work/life balance.

**3. Break up the day.** It's easy to forget to take breaks when your workspace is in your home. Going for a short walk, running a quick errand during lunch, and standing up to stretch once in a while will help you recharge and decompress throughout the day.

**4. Stay connected.** Working from home means you have less opportunity to interact regularly with your co-workers, which can feel isolating. That's why it is important to stay connected by using the technological resources that are available to you (e.g., video conferencing, instant messaging).

1) Morning Consult, 2020