Captain's Log

Guiding Your Financial Journey

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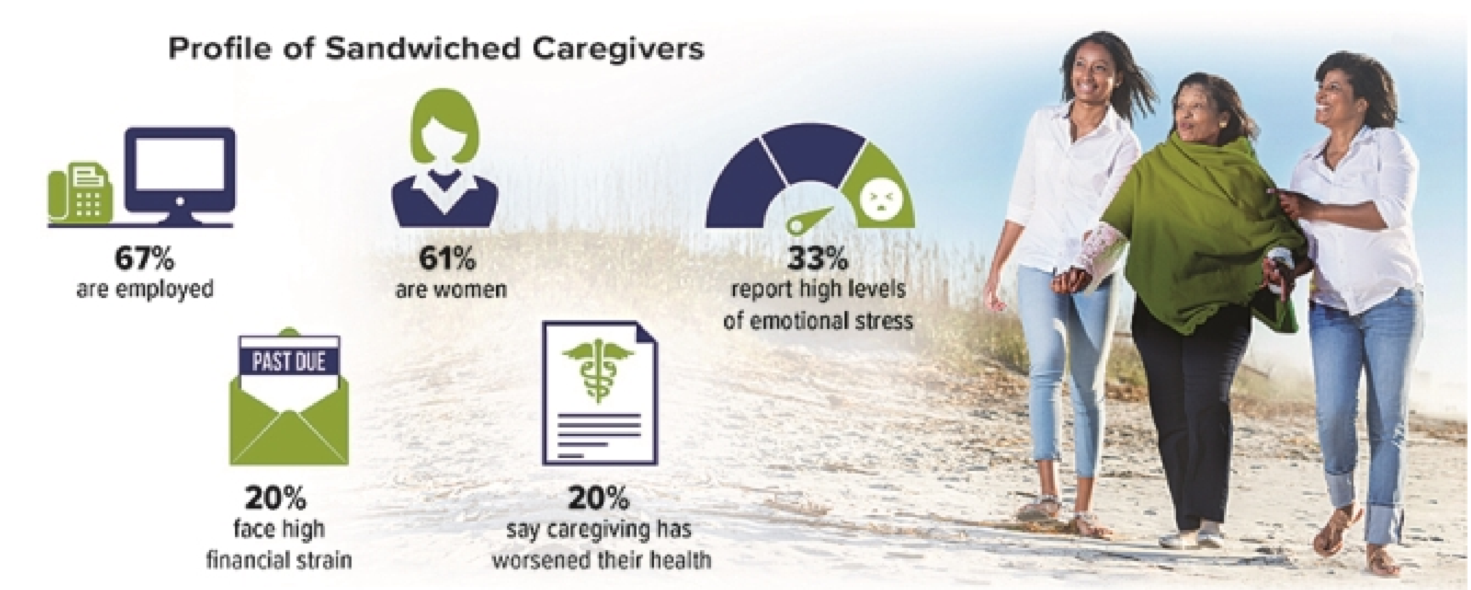
Sandwich Generation Caregivers Face Many Challenges

Individuals in the "sandwich generation" have the dual responsibility of providing care for an adult — often a parent — while also raising children. Caring for others can be very rewarding, but the day-to-day demands of supporting multiple generations can take a financial, emotional, and physical toll on sandwiched caregivers.



Source: National Alliance for Caregiving, 2019

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.

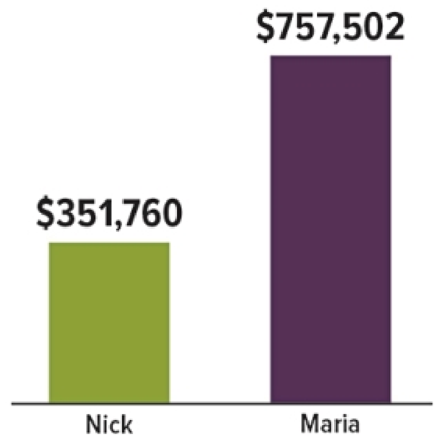
3. Rebalance, if necessary. Market turbulence throughout the past year may have caused your target asset allocation to shift toward a more aggressive or conservative profile than is appropriate for your circumstances. If your portfolio is not rebalanced automatically, now might be a good time to see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

Incapacity and Advance Medical Directives

At some point in your life, you may lose the ability to make or communicate responsible health-care decisions for yourself. Without directions to the contrary, medical professionals are generally compelled to make every effort to save and sustain your life. Depending on your attitude toward various medical treatments and your views on the quality of life, you may wish to take steps now to control future health-care decisions with one or more advance medical directives.

What Is an Advance Medical Directive?

The laws of your state may allow you to adopt one or more advance medical directives to manage your future medical care. There are three main types of advance medical directives: (1) a living will, (2) a durable power of attorney for health care, and (3) a do-not-resuscitate order. Each has unique characteristics and is useful under specific circumstances. You may find that one, two, or all three advance medical directives are necessary to express all your wishes regarding medical treatment.

Living Will

A living will is a legal document that specifies the types of medical treatment you would want, or not want, under particular circumstances. In most states, a living will takes effect only under certain circumstances, such as a terminal illness or injury. Generally, one can be used solely to decline medical treatment that "serves only to postpone the moment of death."

Durable Power of Attorney for Health Care/Health-Care Proxy

A durable power of attorney for health care (DPAHC), also known as a health-care proxy, is a legal document in which you appoint a representative to make medical decisions on your behalf if you become unable to make or communicate them yourself. It allows you to exercise control over your health care through this representative, who will have the authority to make most medical care decisions for you.

You may want to appoint such a representative to act on your behalf. If you don't, medical professionals will generally be compelled to do everything possible to save and sustain your life. A DPAHC can resolve conflicts and help ensure that your choices regarding medical treatment are respected. A DPAHC may not be practical in an emergency — your representative must be present to act on your behalf.

Do-Not-Resuscitate Order

A do-not-resuscitate (DNR) order is a legally binding order, signed by both you and your physician, that directs medical personnel not to perform cardiopulmonary resuscitation (CPR) or other invasive procedures on you if you stop breathing or your heart stops beating. A DNR is the only advance medical directive specifically intended for use in an emergency. There are two types of DNRs: One is effective only while you are hospitalized; the other is used by people outside the hospital. ID bracelets, MedicAlert® necklaces, and wallet cards are some methods of noting DNR status.

More to Consider

- The laws on advance medical directives vary considerably from state to state. If you spend a significant amount of time in a state other than where you live, you may want to research that state's laws as well.
- Review your advance medical directives periodically to ensure they reflect your current wishes and attitude.
- Discuss your advance medical directives with appropriate persons (perhaps your doctor, your DPAHC representative, your family, and your friends).
- If you have multiple advance medical directives, make sure your instructions are stated consistently throughout. In many states, the most recent document prevails in case of a conflict.

Incapacity and Advance Medical Directives

ADVANCE MEDICAL DIRECTIVE	USED TO
Living will	Decline medical treatment for terminal illness or injury
Durable power of attorney for health care	Appoint representative to make medical decisions for you
Do-not-resuscitate order	Direct medical personnel not to perform CPR

Should You Pay Off Student Loans Early or Save More for Retirement?

For adults with student debt and extra money on hand, deciding whether to pay off student loans early or put those funds toward retirement can be tricky. It's a financial tug-of-war between digging out from debt today and saving for the future, both of which are very important goals. This decision is relevant today considering that roughly 65% of college graduates in the class of 2018 had student debt, with an average debt of $29,200.[1] This amount equates to a monthly payment of $295, based on a 4% interest rate and standard 10-year repayment term.

Let's assume you have a $300 monthly student loan obligation. You have to pay it each month — that's non-negotiable. But if you have extra money available, what's the better course: pay more toward your student loans each month to pay them off faster or contribute extra funds to your retirement? The answer comes down to optimizing how those dollars can be put to work for you.

The first question to consider is whether you are taking full advantage of any 401(k) match offered by your employer. For example, let's say your employer matches one dollar for every dollar you save in your 401(k), up to 6% of your pay. If you make $50,000 a year, 6% of your pay is $3,000. So by contributing $3,000 per year to your 401(k), or $250 per month, you will get the full employer match of $3,000. That's a 100% return on your investment.

If you are already contributing enough to get the full match, next compare the interest rate on your debt to the rate of return you could be earning on any extra funds you invest. When you make extra payments on a specific debt, you are essentially earning a rate of return equal to the interest rate on that debt. In the student loan example, the interest rate is 4%, so by applying extra money toward that debt you are "earning" a 4% return. If you think you can earn a higher rate of return by investing extra money in your retirement account, then those funds might best be put to work for you there.

Of course, no one can predict their expected rate of return with certainty. But generally speaking, if the interest rate on your debt is relatively low, the potential long-term returns you might earn in your retirement account could outweigh the benefits of shaving a year or two off your student loans. If you have time on your side when saving for retirement, the long-term growth potential of even small amounts can make contributing to your retirement account a smart financial move.

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

1) The Institute for College Access and Success, 2019