Retirement
INSIGHTS

Columbia Benefits
CONSULTANTS, INC

Your Retirement Planning Newsletter

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Don't Eat the Marshmallow!

Having more self-control than a preschooler can lead to more rewards

Fifty years ago, psychologists at Stanford University conducted an experiment on preschoolers. During this test, researchers placed youngsters in individual rooms and asked each child to sit down in front of a tray containing one marshmallow. The child was given a choice: He or she could eat this marshmallow immediately or wait a little while for the researchers to place a second marshmallow on the tray—an opportunity to enjoy *two* treats instead of just one.

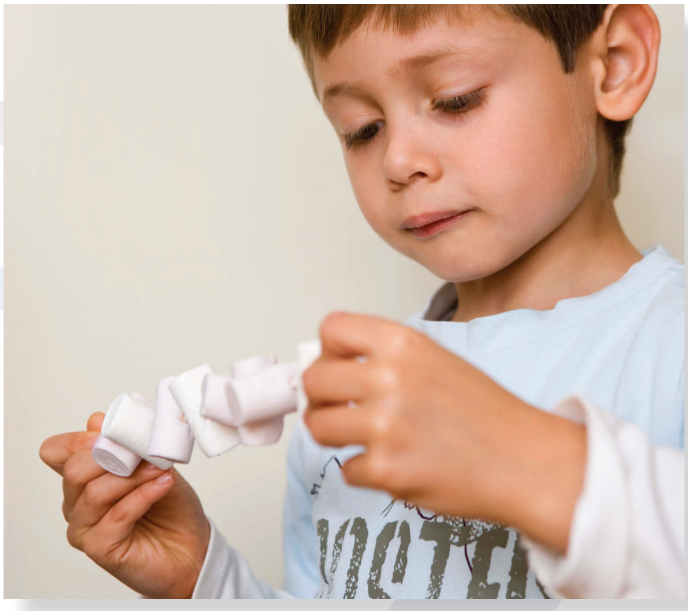
What did the kids do, what would you do, and what does the ability to delay gratification mean for future retirement success?

While encouraging kids to eat more candy wasn't the goal of this multi-year study, it eventually led to a powerful conclusion: Children who "passed" the marshmallow test had greater competence and success later on as adults.[1] Kids who successfully waited for the second marshmallow showed self-restraint and understood that not all needs require immediate gratification. This example is directly applicable to behavioral finance: Controlling spending now may lead to significant benefits in the future.

Patience is not just a virtue—it may create its own success

There are a few steps you can take today that potentially could lead to greater retirement success tomorrow. They include:

- **Enrolling in your 401(k).** By setting aside money from each paycheck before you ever see it, you avoid unnecessary spending.
- **Making a habit of saving and increasing your plan contributions.** Some experts say you should save 15% of your pretax income each year for your retirement, including your 401(k) and IRA. If your plan offers any employer matching contributions, take advantage of these as well.
- **Knowing when you may need professional advice.** Those who lack confidence in their ability to manage their investments may be more prone to "cash out" at the worst time—at market lows—and wreck their retirement plan.



Unless you are comfortable making your own investment decisions and making changes to your account as your retirement date nears, consider tapping professional advice that may be available to you within your employer's retirement plan.

Help can come in several forms, such as online at your employer's or plan provider's website, which offers a wealth of planning tips and strategies, such as retirement calculators, worksheets, risk tolerance questionnaires, and guidance on what to do with your retirement savings when you retire or change jobs.

Self-control in retirement planning is key: By avoiding impulse spending and investing consistently over time to pursue rewards, you may move that much closer to securing your financial future.

1 Walter Mischel, *The Marshmallow Test: Mastering Self-Control* (New York: Little, Brown & Co., 2014).

Four Questions to Ask Yourself for the Rest of 2015

Taking stock of your financial situation at midyear

It's good practice to look back on the year so far to see what adjustments you may want to make in the months ahead. Here are four questions to consider:

1. How would I describe my financial situation?

Revisit and evaluate your current financial situation, investment goals, time horizon and risk tolerance. If you're nearing retirement, has your portfolio become too aggressive? If so, you could be putting your retirement security at risk.

2. Is my portfolio in sync with my investment goals?

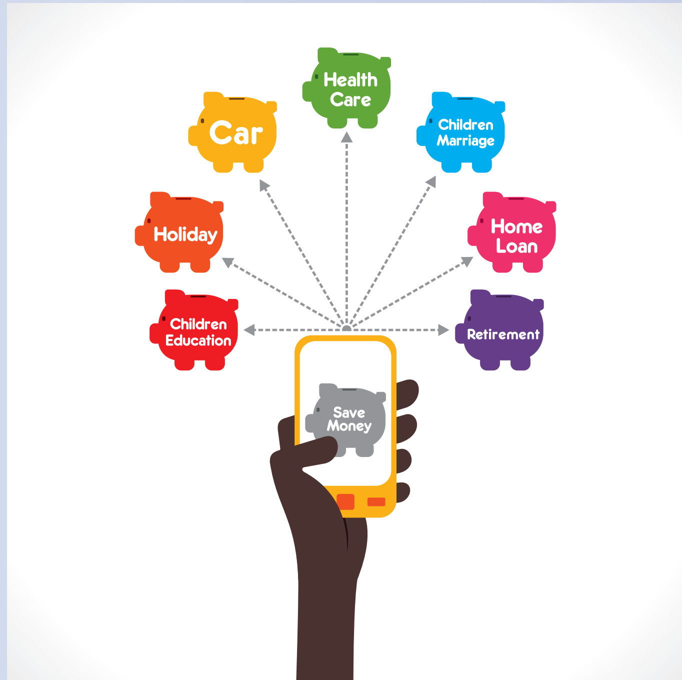
The stock market has done very well over the past several years. Your asset allocation may have become too stock-heavy and, therefore, you may be taking on too much risk due to the appreciation in the value of your stock holdings. If so, this may be the right time to rebalance to get back to your desired allocation.[2] Some investment options—such as target date funds—are available in most retirement plans and may help keep your portfolio on a more consistent path. (The term "target date" refers to the approximate date when investors in the fund plan to start taking money out. Please keep in mind that different target date fund managers use different investment strategies. Fund investors should review holdings as they approach the target date to make sure the investments remain consistent with their objectives. The principal value of a target date fund is not guaranteed at any time, including at the target date.)

3. Have I had any changes in my life that might affect how I'm investing for retirement?

If you answer "yes" to any of the following questions, you may need to reconsider your current investment strategy.

- Have you or your spouse/partner lost a job, changed jobs, or retired?
- Did you recently get married or divorced?
- Have you changed your anticipated retirement date?
- Are you financially supporting adult children or your parents?
- Have your health care needs changed, or those of your spouse or children?
- Are you planning to make any big purchases during the remainder of the year?

Visit your employer's benefits website often for planning resources and more information.



4. The stock market seems to be undergoing more swings in recent months. Is there anything I can do to minimize the negative effects?

We normally can expect a market correction—a 10% decline in an index—about once a year.[3] If you anticipate needing money in the next year or two and have experienced market volatility in your portfolio, then you may be positioned too aggressively. If you have 10 or more years until you need the money, a little volatility may not be such a bad thing (especially if we experience more and higher up markets than down markets).

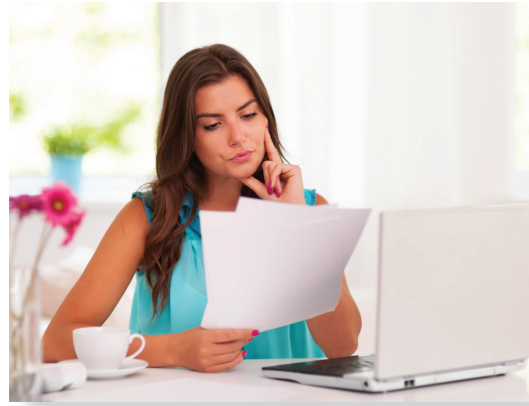
You can dampen the effects of significant bouts of volatility by increasing your allocation of bond funds (which are less risky than stock funds, but also have historically offered lower returns).

If your plan offers access to a financial advisor, meeting with him or her during the year can be an important step to assessing your financial situation, investment time frame and risk tolerance. Doing so can also help you take the steps needed to get back on a solid financial footing.

2 There is no guarantee that asset allocation or portfolio rebalancing will generate a profit or protect against loss. All investing involves risk, including loss of principal.

3 Jim Stack, "Why You Should Prepare for a Stock Market Correction," Forbes.com, Sept. 24,2013; http://www.forbes.com/sites/gurucentral/2013/09/24/why-you-should-prepare-for-a-stock-market-correction/

Know Before **You Go: Understanding** Your **Distribution Options**



Decisions you make about taking money from your plan can have serious tax consequences. Here's what you need to know.

Your Options	Pros	Cons
1. Roll over to an IRA	• Continue tax-deferred growth • Avoid early withdrawal penalties • Have flexible investment options • Can choose a Roth after-tax IRA • Consolidate your assets in one convenient place	• Restricts borrowing against your assets • Applies annual fees and commissions that may be higher than those in your current plan • If you have an outstanding loan on your current employer-sponsored plan—you must pay back the entire loan amount at the time of the roll over to avoid any unnecessary taxes and penalties
2. Remain in your plan	• Continue tax-deferred growth • Avoid early withdrawal penalties • Maintain access to your plan when money is needed • Receive creditor protection • May have lower fees • Move to another retirement plan later • May continue to pay on outstanding loans after termination if allowed by the plan and if investments remain in the plan	• Possibly limited investment options • May not be able to remain in the plan if the balance is less than $5,000 • May not have access to loans
3. Roll over to another employer's plan	• Continue tax-deferred growth • Avoid early withdrawal penalties • May be able to consolidate qualified assets in one account • May be able to borrow from the plan • Receive creditor protection • May have lower fees	• Limits you to investment options offered by that plan • May have limits on how you can move money among investment choices
4. Take a distribution in cash	• Get the money you need right away	• Possible 10% early withdrawal penalty if you are under age 59½ • Adds to ordinary income and may increase your tax liability in the year received • May severely limit your ability to stay on track for retirement

Consult with your investment advisor or tax professional before deciding on any distribution option.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Will you still need me when I'm 64—or is it 65?
Some birthdays are more important than others when it comes to retirement. Here are some milestones to remember.

Age 50	More money can be placed in your retirement plan this year. Put an additional $6,000 into your 401(k) and an extra $1,000 into your Roth or traditional IRA.
Age 59½	There is no longer an early withdrawal penalty for taking money out of your tax-advantaged retirement plan.
Age 62	You can claim Social Security, but your benefits will only be 75% of what you could collect at full retirement (age 66 for people born between 1943 and 1954).
Age 65	Time to enroll in Medicare, Part A, which covers hospitalization and costs nothing.
Age 70	You qualify for the maximum Social Security benefit—there is no advantage in delaying any longer.
Age 70½	This is when you must start annual required minimum distributions from your 401(k) and IRAs.

Q&A

How do I boost my credit score?
Your FICO score helps determine the amount of money you will be allowed to borrow and the interest rate you likely will pay. These results, which lenders use to qualify loan recipients, attempt to identify which borrowers are likely to repay on time. Having a healthy (high) score could help you lower your payments on a car or house purchase by hundreds or even thousands of dollars over the life of the loan. A low score from late payments on loans and credit cards can result in hurting your ability to qualify for loans in the future.

You can easily improve your FICO score. Spending less on your credit cards and paying off balances each month can improve your score in as little as one payment period. Making these ritual actions not only strengthens your ability to manage other debts—car loans, mortgages—but also can build your credit history over time.

Quarterly Reminder

What financial issues should I tackle next quarter?
With few required IRS actions this quarter, this might be a good time to plan your estate, review your insurance policies to see if you're adequately covered (especially if you've had major life changes), trim the household budget, or start college savings plans for younger children.

Tools & Techniques

Rule of thumb for gauging retirement income
Check your retirement progress by adding up all of your savings and applying a 4% annual portfolio withdrawal rate, equal to $4,000 a year for every $100,000 saved. This is a conservative way to project the annual income that your savings will produce. Should you be saving more?

Corner on the Market

Basic financial terms to know

Longevity risk
Longevity risk is the chance that you could outlive your life savings. The best way to protect yourself from this unknown is to save enough to be financially secure in retirement, taking into account your health and spending needs. To estimate how long you are likely to live based on the latest medical and scientific data, check out the Life Expectancy calculator at www.livingto100.com.

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