Summary 2014

Your Financial Future

Picture It Now

Q Your Questions Answered

Can I contribute to an IRA if I participate in my company's 401(k) plan?

You can contribute to a traditional or Roth IRA if you or your spouse participate in your company's 401(k) plan. However, there are restrictions on the deductibility of the contributions to a traditional IRA. These restrictions differ depending on whether it is you or your spouse who participates in an employer-sponsored plan. If you participate in a plan, you may not deduct contributions if your income is over $70,000 in 2014 ($116,000 for joint filers). If you are not covered by an employer-sponsored retirement plan, but file a joint return with a spouse who is covered, your contributions to the IRA will not be deductible if your joint income exceeds $191,000 in 2014.

You may be eligible to contribute to a Roth IRA if your income is below $129,000 (single) or $191,000 (for joint files) in 2014. Roth IRA contributions are made after-tax and withdrawals after age 59½ are tax free. In 2014, you may contribute up to $5,500 to either a Roth or traditional plan, and if you are age 50 or older, you may contribute an additional $1,000.

Wealth Management Systems Inc.

Are You Contributing Enough to Your Plan?

As a participant in your company's employer-sponsored retirement plan, you contribute a portion of your salary from each paycheck. But is it enough? With many retirements today lasting 25 years or longer, it is important to monitor your plan contribution level to make sure you are meeting your retirement goals.

How much are you allowed to contribute?

Different plans permit different levels of employee contributions and matching contributions, but all must adhere to certain limits under Internal Revenue Service (IRS) rules. For 2014, you are allowed to contribute up to $17,500 to a qualified plan on a tax-deferred basis. If you are age 50 or older, you can contribute an additional $5,500 in "catch-up" contributions. The total that can be contributed to a plan on your behalf in 2014 is $52,000 or 100% of your compensation, whichever is less. This includes your pretax and after-tax contributions, as well as any employer match.

IRS Contribution Limits for 2014	
Employee contributions	$17,500
Catch-up contributions for those age 50 or older	$5,500
Total contributions, including employer contributions	$52,000

How much will you need in retirement?

To estimate how much you will need in retirement, you will want to start by considering your retirement lifestyle. Do you plan to travel? Will you want to work part time? These are important questions that will help determine just how much you'll need to contribute and set aside. You will also need to factor in when you plan to retire and how long you expect to live in retirement. Lastly, you will want to estimate any sources of retirement income such as Social Security and pensions. This will help you figure out just how much you'll need to rely on your 401(k) plan investments to cover living expenses in retirement.

How much can you afford to deduct from your paycheck today?

How much you can afford to contribute each pay period will depend largely on what your other expenses and financial commitments are — and how you prioritize them. Keep in mind that contributions to your 401(k) plan are tax deferred,

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Inside: Retirement Timing and Rebalancing

Retirement Timing: Many Factors to Consider

Most everyone dreams of the day they can finally retire and live the life of leisure. For some, retirement begins in their 50s. For others, it may not begin until past age 70. At what age you retire will depend on a number of factors, not the least of which is the size of your retirement nest egg. As you plan your eventual retirement, there are several important considerations you will want to bear in mind before setting a specific retirement date.

Longevity

According to the Census Bureau, the average American born in 1900 had a life expectancy of 48 years. Today, that figure has grown to 76 years.[1] What's more, today's 65-year-old can expect to survive another 18+ years, with almost a 40% chance of surviving past age 85.[2] This means that retirements are becoming longer. It is not uncommon today to spend 25 or more years in retirement. This trend of longer retirements should factor into how you time your retirement.

Health care costs

Anyone contemplating an early retirement will want to first identify how they intend to fund health care costs until Medicare kicks in at age 65. Health care costs and insurance premiums rise with age, meaning that you could face a sizable monthly premium. If your health insurance is currently through your employer, chances are it is subsidized by them and you could face paying hundreds of dollars per month more than you are now. And keep in mind that Medicare does not pay for everything and many services require cost-sharing such as deductibles and copays.

Social Security

Full Social Security benefits do not start until "full" retirement age — 66 or 67, depending upon what year you were born. Although you can begin collecting as early as age 62, your full monthly benefits will be reduced by approximately 30% and every $2 you earn from working above $15,480 will reduce your Social Security check by $1. So if you are planning to work in retirement, you may want to put off collecting Social Security until at least your full retirement age. You may also elect to delay collecting until after your full retirement age. For every year you delay (up to age 70), your benefit will increase by 5.5% to 8%, depending on your age.

Pensions

Most private businesses these days no longer offer defined benefit pension plans. However, most public sector institutions do. If you do have a workplace pension plan, you will want to find out how the monthly payment will vary if you retire at different ages. Although most plans permit early collections, like Social Security, they have a "full" retirement date (usually age 65) and usually reduce monthly payments for early retirements.

Regardless of when you choose to retire, remember to keep the following tips in mind:

- Withdraw very conservatively (perhaps just 4% or 5% annually) from your retirement accounts.
- Consider maintaining an allocation to stock investments for their long-term growth potential.
- Consult with a financial professional.

[1]Source: InfoPlease.com, based on data from the Center for Disease Control and the U.S. Census.

[2]Source: Wealth Management Systems Inc. Based on the Period Life Tables for U.S. Social Security Area by Calendar Year and Sex, 2010 (latest available) from the Social Security Administration.

Rebalancing: Keeping Your Plan on Track

If you have not reviewed your plan holdings lately, you may be surprised at what you find. Even if you have not made a single change to your plan investment mix, it's possible that your current asset allocation is nowhere near what it was when you first started participating in your employer-sponsored plan. That's why it is a good idea to review your portfolio at least once a year to determine whether it makes sense to rebalance or adjust your holdings and to confirm that your portfolio holdings fit your current investment needs and circumstances.

Portfolio Drift

To appreciate how performance differences can affect an unbalanced portfolio over time, throwing it more and more out of sync with your target asset allocation, consider what happened to a hypothetical portfolio of 70% stocks, 20% bonds and 10% cash left unbalanced for the 20 years ended December 31, 2013. The original 70% allocation to U.S. stocks would have grown to 84%, while allocations to bonds and cash would have shrunk to 12% and 4%, respectively, increasing the overall risk in the portfolio. Keep in mind that past performance is no guarantee of future results.[1]

Making Adjustments

Ideally, adjustments to your asset allocation should occur regularly over the years based on such factors as your projected retirement date, life events such as the birth of a child, and your comfort with risk. As a general rule, the further you stand from retirement, the larger the role stocks may play in your portfolio.

At each review, calculate how much of your money is in stocks, bonds and other asset classes. Then decide whether you are comfortable with those allocations. If not, rebalance to bring the allocations back to their intended targets.

Rebalancing your plan account holdings can be accomplished by changing your investment allocations on future contributions and/or changing your current mix of investments. Either way, you will want to reduce allocations to investments that exceed your target allocation and increase allocations to investments in the underweighted asset classes.

How often should you consider rebalancing? The usual answer is anytime your goals change; otherwise, at least once a year. However, during times of market volatility, it may be a good idea to keep close tabs on your holdings and make sure they do not drift far from your target allocation. You might also consider allocating a portion of your plan investments to a target-date fund, if offered in your plan's investment choices. Such funds adjust your allocations automatically over time, reducing overall portfolio risk as you get closer to retirement.

[1]Source: Wealth Management Systems Inc. Stocks are represented by the total returns of Standard & Poor's Composite Index of 500 stocks, an unmanaged index that is generally considered representative of the U.S. stock market. Bonds are represented by the total returns of the Barclays Aggregate Bond index. Money markets are represented by the total returns of the Barclays 3-Month Treasury Bills index. Past performance is not a guarantee of future results.

Using an HSA or FSA to Help You Manage Your Health Care Costs

Even with the Affordable Care Act, health care costs continue to rise. Depending on the types of plans offered by your employer, you could have access to two types of savings accounts that allow you to make pretax contributions to help you pay your medical expenses: a health savings account (HSA) or a flexible spending account (FSA).

Health Savings Accounts

A health savings account is a savings account set up in conjunction with a high-deductible health plan (HDHP). Amounts contributed are pretax and can be used to pay for qualifying health care expenses tax free such as copays or costs that may not be covered under your health plan. You are eligible for an HSA if you are enrolled in a qualified HDHP, are not covered by another health plan, are not eligible for Medicare benefits, and are not a dependent of another person for tax purposes. The maximum contribution to an HSA for 2014 is $3,300 for single coverage or $6,550 for family coverage. If you are over age 55, you can contribute an additional $1,000 regardless of whether you have single or family coverage. Unused HSA contributions roll over from year to year. You own your HSA and can take it with you if you leave your employer.

Flexible Spending Accounts

A flexible spending account (FSA), offered as an elective benefit by many employers, permits you to contribute to an account that is designated for out-of-pocket costs not covered under your health plan. All amounts contributed are pretax, and funds are not taxed when spent on qualifying health care costs. You may not have both an HSA and a general purpose FSA.

Before contributing to an FSA, carefully estimate your medical expenses for the year because amounts contributed that are not spent by the end of the plan year may be forfeited. The maximum amount you can contribute to your FSA is $2,500 per year.

Are You Contributing Enough to Your Plan? (continued from page one)

so the bottom-line impact on your take-home pay won't be as much as you might think. In addition, investment earnings on your contributions grow tax free while they remain in the plan. Over time, with the help of tax deferral, your contributions today can help you realize tomorrow's retirement goals.

And remember to factor in your employer's matching contributions, if available in your plan. You will want to contribute at least the amount required to take full advantage of any available matching contributions. The employer match, if offered, usually represents a percentage of your pretax contribution. For instance, if you contribute 6% of your salary to your plan, your employer might match the first 3% at 50 cents on the dollar. Note that not all employers offer matching contributions and such contributions may be subject to vesting periods or other terms.

Your Financial Future is published by Wealth Management Systems Inc. (WMSI), 100 Franklin Street, 4th Floor, Boston, MA 02110, www.wealthmsi.com.

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