Are You On Track Financially?
Disclaimer

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Why Is Planning Important?

Four major financial planning objectives:

**Retirement**
- Increasing life expectancy
- Rising health care costs
- Inflation
- Less guaranteed support

**Education**
- Rising tuition
- Rising student debt
- Higher professional standards

**Estate**
- Taxes
- Transfer of wealth
- Legal fees
- Lengthy court battles

**Insurance**
- Loss of life
- Unable to work
- End-of-life care
Learning Objectives

- Discover how much you may need in retirement
- Explore the various education savings vehicles
- Grasp the basic concepts of asset allocation
- Examine common estate planning vehicles
- Learn about various insurance products
- Determine whether you’re on track to meet your goals
Retirement Planning

• Your retirement income sources
• 401(k) Overview
• How much you may need
Your Retirement Income Sources

401(k)  Social Security  Defined Benefit Plan\(^1\)  Personal Savings

Retirement Income

In addition to these sources, you may also have income from your spouse, part-time jobs, real estate investments, etc.

\(^1\) Defined Benefit Plan (DBP) available for employees in TCP 1 only
401(k) Plan Overview

You choose…

1. **How much** to contribute
   - **2017 Employee Limits**
     - $18,000 for individuals under 50
     - $24,000 for individuals 50 or older
     - Before-tax and Roth only
     - Up to 75% of gross income
   - **2017 Total Plan Limit**
     - $54,000
     - Includes all employee and employer contributions

2. **How** to contribute
   - **Before-Tax**
     - Lowers current taxable income
     - Distributions are taxable
   - **Roth**
     - Does not lower current taxable income
     - Qualified distributions tax-free
   - **After-Tax**
     - Does not lower current taxable income
     - Earnings portion taxable upon distribution

3. **Where** to invest
   - **Options**
     - Core funds
     - Target-date funds

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1 Excludes catch-up contributions. Only includes employer contributions if eligible
2 Distributions are considered qualified if they are made after the age of 59.5 and the account is at least 5 years old
Research shows employees need an average of 11 times their final pay saved for an adequate age 65 retirement¹

<table>
<thead>
<tr>
<th>Income Range</th>
<th>&lt; 30K</th>
<th>30K–60K</th>
<th>60K–90K</th>
<th>90K–120K</th>
<th>120K+</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 30K</td>
<td>8.0</td>
<td>7.5</td>
<td>6.9</td>
<td>8.1</td>
<td>9.6</td>
</tr>
<tr>
<td>30K–60K</td>
<td>9.5</td>
<td>8.7</td>
<td>8.3</td>
<td>9.4</td>
<td>10.6</td>
</tr>
<tr>
<td>60K–90K</td>
<td>11.0</td>
<td>10.0</td>
<td>9.9</td>
<td>10.8</td>
<td>11.8</td>
</tr>
<tr>
<td>90K–120K</td>
<td>12.2</td>
<td>11.0</td>
<td>10.8</td>
<td>11.7</td>
<td>12.5</td>
</tr>
<tr>
<td>120K+</td>
<td>13.4</td>
<td>11.6</td>
<td>11.1</td>
<td>11.9</td>
<td>13.1</td>
</tr>
</tbody>
</table>

¹Aon Hewitt Real Deal Study 2015

Retirement needs can differ based on income due to taxation issues and because medical costs are typically a much larger proportion of spending for lower income individuals. Needs vary by age because medical costs are increasing faster than salaries are expected to increase, and because life expectancies are increasing.
College Planning

- How much will college cost?
- College savings vehicles
- Qualified education expenses
How Much Will College Cost?

Average cost of higher education has significantly increased over time...

- Public four-year university: $14,951
- Private four-year university: $46,319

2015–2016
- Public four-year university: $28,958
- Private four-year university: $76,326

Source: The College Board
Total costs include tuition, room, and board.
# College Savings Vehicles

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>529 Plans</td>
<td>After-tax savings and tax-free withdrawals for qualified education expenses. Funds invested with mutual fund companies.</td>
</tr>
<tr>
<td>Coverdell ESA</td>
<td>After-tax savings and tax-free withdrawals for qualified education expenses. Contribution limit of $2,000 per year; can also be used for K-12 education.</td>
</tr>
<tr>
<td>Roth IRA</td>
<td>After-tax retirement account. May avoid early withdrawal penalties for qualified education expenses.</td>
</tr>
<tr>
<td>Custodial Accounts</td>
<td>Taxable account in the name of the minor. Contributions are irrevocable gifts to the minor.</td>
</tr>
<tr>
<td>Regular Investment Account</td>
<td>Taxable investment account; provides most flexibility for use of funds. No special tax benefits for education savings.</td>
</tr>
</tbody>
</table>
Qualified Education Expenses

- Tuition
- Student activity fees
- Enrollment fees
- Room and board
- Insurance and medical expenses
- Transportation
Asset Allocation

- Asset classes
- The risk/return trade-off
- Diversification
- Rebalancing
Asset Classes

**Stocks**
Ownership in a company. Fluctuates in value daily. Highest risk of loss.

**Bonds**
Represents a loan to a government or corporation. Legal obligation; provides regular interest payments.

**Short-term**
Cash or other instruments with short-term maturities such as CDs and money markets.
The Risk/Return Trade-Off

Historically, stocks have returned higher than bonds, but with more risk. Likewise, bonds have returned higher than short-term investments, but also with more risk.

For illustrative purposes only. Graphic does not represent actual historical data.
Diversification

A diversified portfolio combines multiple asset classes. The goal is to maximize returns for a given amount of risk.

For illustrative purposes only. Graphic does not represent actual historical data.
This table shows the range of returns for stocks, bonds, and cash for the 30-year period ending September 30, 2016.

Source: ChartSource®, DST Systems, Inc. Based on 12-month periods for the 30 years ended September 30, 2016. Stocks are represented by Standard & Poor's Composite Index of 500 Stocks. Bonds are represented by the Barclays U.S. Aggregate Bond index. Cash equivalents are represented by a composite of the yields on 3-month Treasury bills, published by the Federal Reserve, and the Barclays 3-Month Treasury Bills index. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. Copyright Â© 2016, DST Systems, Inc. Reproduction in whole or in part is prohibited, except by permission. All rights reserved. Not responsible for any errors or omissions.
Rebalancing

Rebalancing is the act of restoring your portfolio to its target mix after market conditions have changed it.

1. Target mix

2. Change from market conditions
   - Stocks have grown to 50%
   - Bonds have decreased to 16%
   - Portfolio is significantly more aggressive than intended

3. Rebalance to target mix
   - Sold 17% of stock mix
   - Purchased additional 17% of bond mix
   - Achieved target mix

For illustrative purposes only. Graphic does not represent actual historical data.
Insurance Planning

- Life insurance
- Disability insurance
- Long-term care insurance
# Life Insurance

<table>
<thead>
<tr>
<th>Permanent</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Death benefit</strong></td>
<td><strong>Death benefit</strong></td>
</tr>
<tr>
<td>- Death benefit for life</td>
<td></td>
</tr>
<tr>
<td>- Whole or universal</td>
<td></td>
</tr>
<tr>
<td><strong>Who is it for?</strong></td>
<td><strong>Who is it for?</strong></td>
</tr>
<tr>
<td>- Permanent need</td>
<td></td>
</tr>
<tr>
<td>- Desire wealth transfer</td>
<td></td>
</tr>
<tr>
<td>- Estate planning vehicle</td>
<td></td>
</tr>
<tr>
<td>- Limited need</td>
<td></td>
</tr>
<tr>
<td>- Can’t afford permanent</td>
<td></td>
</tr>
<tr>
<td><strong>Cost and other factors</strong></td>
<td><strong>Cost and other factors</strong></td>
</tr>
<tr>
<td>- Higher premiums</td>
<td></td>
</tr>
<tr>
<td>- May build cash value(^1)</td>
<td></td>
</tr>
<tr>
<td>- Loans may be available(^1)</td>
<td></td>
</tr>
<tr>
<td>- May issue dividends(^1)</td>
<td></td>
</tr>
<tr>
<td>- Lower premiums</td>
<td></td>
</tr>
<tr>
<td>- No cash value buildup</td>
<td></td>
</tr>
<tr>
<td>- No loans available</td>
<td></td>
</tr>
<tr>
<td>- No dividends</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\)May vary by provider. Speak with your insurance agent for more information.
## Disability Insurance

<table>
<thead>
<tr>
<th>Group or Individual</th>
<th>Social Security</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefit</strong></td>
<td><strong>Benefit</strong></td>
</tr>
<tr>
<td>• Short-term and long-term</td>
<td>• Based on lifetime earnings</td>
</tr>
<tr>
<td>• Pays a % of current pay</td>
<td>• Average monthly benefit in 2016 was $1,166&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>• Can be reduced if collecting Social Security disability</td>
<td><strong>Eligibility&lt;sup&gt;2&lt;/sup&gt;</strong></td>
</tr>
<tr>
<td><strong>Eligibility&lt;sup&gt;2&lt;/sup&gt;</strong></td>
<td>• Must have “total” disability</td>
</tr>
<tr>
<td>• Inability to work</td>
<td>• Cannot continue to work</td>
</tr>
<tr>
<td>• Generally covers illness, accidents, and injuries</td>
<td>• Expected to last 1 year or more</td>
</tr>
<tr>
<td><strong>Tax Issues</strong></td>
<td><strong>Tax Issues</strong></td>
</tr>
<tr>
<td>• Employer-provided benefits are generally taxable</td>
<td>• Based on “combined income” and filing status</td>
</tr>
<tr>
<td>• Benefits from personally paid policy generally tax-free</td>
<td>• Up to 85% of the benefit may be taxable</td>
</tr>
</tbody>
</table>

<sup>1</sup>https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/

<sup>2</sup>See your provider for a complete list of eligibility requirements.
Long-Term Care Insurance

Aging can be a major challenge. Consider the following daily activities not covered by Medicare:\(^1\)

- Keeping the house clean
- Grocery shopping
- Taking medication
- Bathing
- Getting dressed
- Running errands

Long-term care insurance can help.

- Covers custodial services not covered by Medicare
- Generally provides daily dollar benefit
- Covers assisted living, nursing home, in-home care, etc.
- Tax advantages for qualified policies


\(^1\)Medicare will provide limited coverage for some long-term expenses. See [www.medicare.gov](http://www.medicare.gov) for more information.
Estate Planning

• What is estate planning?
• Why have an estate plan?
• Estate planning techniques
• Planning for incapacitation
What Is Estate Planning?

Estate planning is the process of accumulation, management, conservation, and transfer of wealth.¹

1. **Accumulation**
   - Decisions on account types, investment choices, and other legal instruments can all affect your estate.

2. **Management**
   - Decisions about how your assets are handled, such as where they are invested and when, can impact your estate planning objectives.

3. **Conservation**
   - Proper estate planning will help maximize the amount of assets available for transfer by reducing fees, taxes, and other costs.

4. **Transfer**
   - Proper estate planning allows for your assets to be transferred to the parties you choose, and in the manner you desire.

¹Certified Financial Planner Board of Standards, Inc.
Why Have an Estate Plan?

1. Reduce or eliminate potential estate tax
2. Make effective transfers in life and in death
3. Allow the estate to avoid probate
4. Pass property to heirs as you see fit
5. Peace of mind

Estate planning can benefit nearly everyone, not just the wealthy!
Estate Planning Techniques

Naming Beneficiaries
Name beneficiaries to retirement accounts and insurance policies directly.

Wills
Simple document outlining your wishes to the court.

Trusts
Independent legal entity. Provides control and flexibility to managing your estate.

Transfer on Death and Payable on Death
Name beneficiaries to taxable investment accounts and bank accounts.

Property Titling
Holding title in property such as joint tenants with rights of survivorship can allow for easy transfer of property interest.¹

¹Consult with your tax advisor or legal counsel on the best way to title property. Improper use of titling can result in unexpected gift taxes.
Planning for Incapacitation

**Power of Attorney**
- Establishes an agent to act on behalf of the principal
- Durable—remains in effect through incapacitation
- May be limited or unlimited

**Living Will**
- Establishes health care wishes if unable to direct your own health care
- Does not establish surrogate decision maker
- Narrow scope of authority
Are You On Track?

• Are your savings on track?
• Is your education savings plan on track?
• Do you have the right investments?
• Have you created an estate plan?
• Do you have appropriate insurance?
Are Your Savings On Track?

Target if saving begins at age 25 (multiples of pay)

- 35: 2.0x
- 45: 4.3x
- 55: 7.3x
- 60: 9.0x
- 65: 11.0x

1Aon Hewitt Real Deal Study 2015
Is Your Education Savings Plan On Track?

**Have you chosen the right vehicle?**
Do you prefer the tax advantages of a 529 or Coverdell ESA over possible penalties? Do you want to retain control over the money?

**Have you considered all of your funding sources?**
Has your student applied for potential scholarships? Have you reviewed the Federal Student Loan website or met with a counselor to discuss private loan options?

**Do you have the right investment strategy?**
Are your savings invested appropriately? Have you considered your time frame and risk tolerance as it applies to an education savings goal?
Do You Have the Right Investments?

Growth of $1 since January, 1997

Source: ChartSource®, DST Systems, Inc. Inflation is represented by the change in the Consumer Price index. The "80/20" portfolio is composed of 80% stocks (S&P 500 index) and 20% bonds (Bloomberg Barclays U.S. Aggregate Bond index). The "40/40/20" portfolio is composed of 40% stocks (S&P 500 index), 40% bonds (Bloomberg Barclays U.S. Aggregate Bond index), and 20% cash (a composite of yield on 3-Month Treasury Bills and the Bloomberg Barclays U.S. Treasury Bill 1-3 Month index). The "25/25/50" portfolio is composed of 25% stocks (S&P 500 index), 25% bonds (Bloomberg Barclays U.S. Aggregate Bond index), and 50% cash (a composite of yield on 3-Month Treasury Bills and the Bloomberg Barclays U.S. Treasury Bill 1-3 Month index).
Have You Created an Estate Plan?

Estate Planning Checklist

☐ Added beneficiaries to all retirement accounts
☐ Added TOD and POD agreements to other accounts
☐ Determined whether a will or trust is appropriate
☐ Set up meeting with estate planning attorney
Do You Have the Right Insurance?

**Do you have life insurance?**
Do you need to protect your family against loss of income in the event of your death? Do you have a permanent need or a temporary need?

**Do you have disability insurance?**
What would happen if you were no longer able to work? Could you pay the bills? Are you eligible for Social Security disability? Does your employer offer a group disability plan?

**Do you have long-term care insurance?**
Will you have the support when you are older? Who will take care of you? Will you have enough money saved up to cover the expenses out of pocket?
Course Summary

**Retirement Planning**
- 401(k) overview
- On average, you’ll need 11x final pay saved up

**Education Planning**
- Rising tuition
- College savings vehicles
- Qualified education expenses

**Asset Allocation**
- Basic asset classes
- Risk / return trade-off
- Diversification
- Rebalancing

**Estate Planning**
- Benefits of an estate plan
- Estate planning vehicles
- Planning for incapacitation

**Insurance Planning**
- Basic asset classes
- Risk / return trade-off
- Diversification
- Rebalancing

**Are You On-Track?**
- Are your savings on-track?
- Is your education savings plan on track
- Do you have the right investments?
- Do you have an estate plan?
- Do you have the right insurance?
For More Information

LLNL Benefits Office
X 2-9955
Building 543, Room 1216
https://benefits.llnl.gov
Questions