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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

March 2016

Hello FF readers! It's been a busy tax season so far (we also run a tax & accounting practice - MF Tax & Accounting; http://mftax.com) and we're sorry that we haven't produced a newsletter since Nov. '15! Please enjoy this month's newsletter and let us know if you have any questions!

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In This Issue

Start Today! Three Ways to Boost Your Retirement Savings

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As Americans, we can take pride in the many things we do well. We work hard. We have excellent hospitals and universities, and we entertain the world with the movies we make. But there's one thing that we could all do better -- and that's saving for the future.

Of course, if you are already saving for your retirement through your employer-sponsored savings plan, each contribution you make brings you closer to your retirement goal. But are you saving as much as you can?

If you need a reason to get serious about saving more, consider this: Today the average Social Security retirement benefit was just $1,329 a month at the end of 2014.[1] Given the uncertainty surrounding the Social Security system, maybe it's time to rethink your own saving habits.

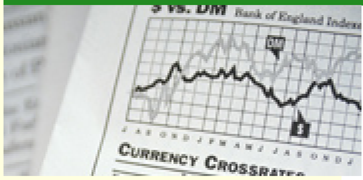
Here are three quick ideas for giving your retirement plan a boost.

1. Apply a raise or bonus to retirement savings. Consider boosting your contribution rate with each increase in pay you receive. Making voluntary increases a habit year in and year out could bring you that much closer to the maximum contribution allowed by your employer (in most cases that is $18,000 in 2016 plus an additional $6,000 in catch-up contributions that are allowed for workers age 50 and older).
2. Cut back household expenses. You may be surprised by how quickly small savings can add up. Things as simple as brown-bagging lunch, switching from brand name to store brand items, and doing away with premium cable channels can make a noticeable difference in your monthly cash flow. Setting up a monthly budget of income and expenses may help you find ways to cut back more.
3. Forgo a tax refund. In 2015, the IRS estimated the average tax refund check to be a little over $3,000.[2] If you typically get a tax refund, consider revising your W-4 form to reduce your withholding. Your paycheck will grow, which means you may be able to increase the amount you save in your employer's retirement plan.

You can probably think of other ways to save, such as paying off credit card debt. It really doesn't matter how you save, the important thing is to build your retirement account in ways that work for you.

[1]*Social Security Administration, "Fast Facts & Figures About Social Security, 2015."*

[2]*Internal Revenue Service, "Tax Refunds Reach Almost $125 Billion Mark; IRS.gov Available for Tax Help," IR-2015-34, Feb. 26, 2015.*



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Focus on the Forest, Not the Trees, of Investing

It's a message worth repeating. Investing is a matter of focus. Despite recent disappointments in stock market performance, investors who are willing to assess the whole universe of investment choices may find that the market continues to offer new possibilities. And those who keep their sights set on long-term investment goals may find that a "forest, not trees" approach to investing offers the greatest potential for success.

Focus is especially important for retirement savers -- those who are still in the accumulation stage -- as well as for retirees who need to keep the potential for growth alive in their portfolios.

Are You a Micromanager?

As a retirement saver, your employer-sponsored retirement plan gives you the freedom to make your own investment decisions. And because you can easily change plan investments, you may find yourself becoming a micromanager. That's an investor who changes investments frequently because of daily market movements instead of focusing on the big picture -- a long-term investment strategy. But "chasing returns" by moving your money into whatever investment type or stock market sector happens to be doing well *at the time* rarely pays off in the long run.

The Unknowable Future

The problem with chasing returns is that it's virtually impossible to predict how long a particular investment or market sector will continue to be a top performer. Eventually, another investment or sector will probably take over the lead, and there will be little or no advance warning. That can leave you in the lurch if you changed the investment mix of your retirement plan account based strictly on recent performance.

The Solution: Keep a Long-term Perspective

You may be much better off by the time you retire if you use a "forest, not trees" perspective when you invest. Concentrate on your goal, and choose an investment mix with the potential to help you reach that goal over time.

Your retirement plan offers several investment options, allowing you to choose a well-diversified investment mix for your account. The idea behind long-term investing is to choose a mix that offers you a realistic opportunity to achieve gains while reducing the overall risk to a level you are comfortable with.

After you've chosen your investments, you shouldn't ignore market and economic developments. But you'll generally want to stay with your plan unless you decide that changes in your personal situation or risk tolerance make an adjustment necessary.

If you're a "forest, not trees" investor, you can be much less concerned with what the markets do on a day-to-day basis. You'll be free to switch your investments, but you won't feel compelled to make a move every time the markets zig or zag.

Five Smart Reasons to Keep Saving for Retirement

Your retirement plan is one of the easiest -- and potentially most profitable -- ways to reach your retirement savings goal.

Juggling your personal finances can be a challenging task. There are mortgages and other regular monthly bills to pay, children to raise and educate, and "rainy day" funds to maintain for household and other emergencies. At times, even the best-organized budgets may become strained -- and yes, you may be tempted to cut down or even stop contributing to your employer-sponsored retirement plan. But think carefully before you act. Your retirement plan is one of the easiest -- and potentially most profitable -- ways to reach your retirement savings goal.

Here are five "smart" reminders of the power of your plan.

#1: The Tax Advantages

When you save on a pretax basis, your retirement savings plan offers two strong tax incentives: Your contributions are based on your pretax pay, which means every dollar you put into the plan reduces your current taxable income. In addition, your contributions (and investment earnings) grow and are reinvested, generating more tax deferred earnings. Over time, this process (called compounding) can accelerate the growth potential of your original investment. If you stop contributing to your plan you may limit its full growth potential.

#2: Retirement May Last 20 Years or Longer

Healthier lifestyles and medical advances are extending life expectancies -- and retirement income requirements. Experts have long suggested that individuals generally need 70% to 80% of their preretirement income in retirement. Yet, at best, these are estimates based on generalities. The fact is that expenses won't necessarily decline in retirement -- they may just shift. For example, mortgage payments and college tuition may be ancient history, but spending on health care and leisure is likely to rise. In addition, other unforeseen expenses may arise such as caring for a sick relative or helping to fund a grandchild's education.

#3: The (Potential) Employer Match

You don't want to miss out on the opportunity to reap extra "free" savings in employer-matched contributions. Not all employers provide matching contributions, and such contributions may be subject to vesting periods and other rules. But if your employer does offer a match, make sure you contribute enough to take full advantage of this added bonus.

#4: The Uncertain Future of Social Security

The continuing debate about the future of Social Security leaves many of us wondering what role it will play in our own retirements.

Currently there are two trends working against one another that may put a tremendous burden on the Social Security system in the years to come.

- First, today there are roughly three workers contributing to the Social Security system for every beneficiary. By 2034, that ratio will drop to roughly 2 to 1.[1]
- Second, the number of individuals reaching age 65 each year will continue to rise dramatically.

Due to this demographic shift, there will be fewer young workers to generate taxes that support Social Security, Medicare, and other government programs at a time when more of us will be needing them. The bottom line? It's reasonable to assume that you can expect less government support as you grow older.

#5: Inflation Can Erode Your Savings

Inflation is essentially the increase in the price of goods and services. The most common measure of that increase is the Consumer Price Index, or CPI. The CPI compares current and past prices on a "basket" of common expense categories, including housing, transportation, food, and clothing.

It may be easy to overlook inflation when preparing for your financial future. After all, an inflation rate of just 2% to 3% -- which we have been experiencing for the past several decades -- may not seem worth noting, until you consider the impact it can have on your purchasing power over the long term. Consider that at just a 3% inflation rate, a $100,000 nest egg today would be worth only $40,101 in today's dollars 30 years from now.

We all want retirement to be a time of enjoyment, not financial hardship. To better ensure your own financial future, keep your retirement plan working for you.

[1] *Source: Social Security Administration, Fast Facts & Figures About Social Security, 2015.*