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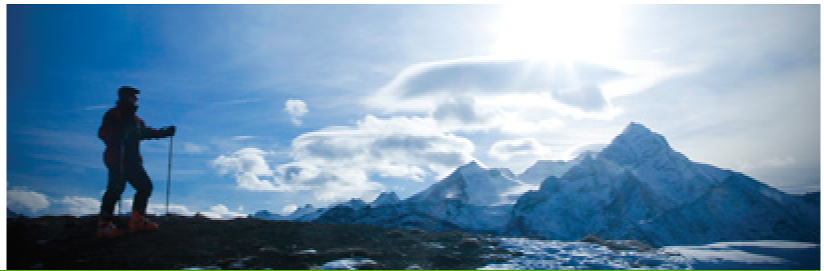

THE FINANCIAL FORMULA

Giving You The Financial Information You Need

December 2017

Happy New Year all FF readers! We hope your holidays have been full of joy! A heads-up: we will be using different newsletter software for The Financial Formula going forward starting in Jan. 2018. Please enjoy this month's edition of The Financial Formula, and let us know if you have any questions - thanks!

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As Americans, we can take pride in the many things we do well. But there's one thing that we could all do better -- and that's saving for the future.

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After years of ambiguity, the IRS has ruled definitively that plan participants can roll after-tax contributions into a Roth IRA tax free.

Start Today! Three Ways to Boost Your Retirement Savings

Given the uncertainty surrounding the Social Security system, maybe it's time to rethink your own saving habits.

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 $1,404 a month at the beginning of 2018.[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 2018, workers may contribute up to $18,500 to a 401(k) plan, and workers age 50 and older may add an additional $6,000 in catch-up contributions (subject to plan limits).
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, "Fact Sheet--2018 Social Security Changes"*

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

November 2017 Market Recap

Despite legislative uncertainty over taxes, stock benchmarks hit new highs in November.

(For the month ended November 30, 2017.)

The fate of the Republicans' massive tax cut plan remained uncertain as November ended. But the stock market surged to new highs even as the curtain rung down on trading for the month. The Dow Jones Industrial and S&P 500 indexes set new records on November 30, at 24,272.35 and 2,647.58 respectively. The NASDAQ Composite set its new record two days previously at 6,912.36. Strong stock index performance was paralleled by apparently strong company earnings performance. Three-fourths of companies reported third-quarter earnings that were ahead of expectations in November, according to *FactSet Earnings Insight.*

Through 11/30/17*	S&P 500	Dow Jones Industrial Average	NASDAQ Composite
November	2.8%	3.8%	2.2%
YTD	18.3%	22.8%	27.7%
1-Year Annualized	20.4%	26.9%	29.1%
3-Year Annualized	8.6%	10.8%	12.8%
5-Year Annualized	13.3%	13.3%	18.0%
Closing Value	2,647.58	24,272.35	6,873.97

Source: DST Systems, Inc. The S&P 500, Dow Jones Industrials, and NASDAQ Composite are unmanaged indexes. It is not possible to invest directly in an index. Index performance does not reflect the effects of investing costs and taxes. Actual results would vary from benchmarks and would likely have been lower. Past performance is no guarantee of future results. Not responsible for any errors or omissions.

*Price only. Does not include dividends.

Economy Watch The U.S. economy grew at a 3.3% annual rate in the third quarter after the figures were adjusted for inflation. The Commerce department said that a decline in imports and smaller reductions in local government spending were significant positive factors.

Consumer Indicators Inflation played a minimal role in the economy during the latest 12-month period, according to the Bureau of Labor Statistics' Consumer Price Index. Prices for the typical urban consumer rose 2% for the year ended October 31, the latest month available. The nation's overall unemployment rate edged downward to 4.1% and total employment rose by 261,000 jobs, the BLS said.

Interest Rate Summary Benchmark Treasury interest rates remained low during November, with market yields showing little concern that inflation trends might change. For example, at last report (the afternoon of November 30), the conventional 5-year Treasury yield was only about 1.7% higher than the inflation-protected 5-year yield. And the conventional 30-year yield was just a little less than 2% higher than the 30-year inflation-protected yield.

Income Inequality and Its Impact on Women's Retirement

Here are the facts. Generally speaking, women earn less than men, live longer than men, and often take time out of the workforce to have children and/or to care for an aging parent or sick loved one. The potential consequence of these realities? While most U.S. workers are facing a retirement savings deficit, for women, the effect is compounded: Lower pay translates into reduced Social Security benefits, smaller pensions, and less retirement savings.

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Just the Facts

You needn't look far to find evidence of the gender retirement gap. Consider the following facts:

Many women will need to make their retirement nest eggs last longer than men's. According to the latest data from the Society of Actuaries, among females age 65, overall longevity has risen 2.4 years from 86.4 in 2000 to 88.8 in 2014. Similarly, among 65-year-old men, longevity has risen two years during the same timeframe, from 84.6 to 86.6 in 2014.[1]

The gender wage gap has a ripple effect over a woman's entire career. The National Women's Law Center has found that a woman starting her career now will lose more than $430,480 over a 40-year career; for Latinas, this wage gap could total $1,007,080 over a career, and for an African American woman, the total wage deficit could reach $877,480.[2] Put another way, a woman would have to work 51 years to earn what a man earns in 40 years.[2]

Family caregiving causes career interruptions that can have significant monetary consequences over time. Research conducted by the AARP revealed that family caregivers who are at least 50 years old and leave the workforce to care for a parent forgo, on average, $304,000 in salary and benefits over their lifetime. These estimates range from $283,716 for men to $324,044 for women.[3]

The retirement income gap is very real. The average Social Security benefit for women older than 65 was $14,234 annually in 2014, compared with $18,113 for men, according to Social Security Administration data.[4] Research shows that women also receive about a third less income in retirement from defined benefit pension plans and have accumulated about a third fewer assets in defined contribution retirement accounts than their male counterparts.[5]

Progress: Slow but Steady

While the evidence is compelling and points out the continuing challenge women face in attaining a secure financial future, there are also signs of improvement for women and their outlook for retirement. For instance, according to the National Institute on Retirement Security's recent study, women are working for more years now than ever before, which helps to enhance their Social Security benefits, pension income, and retirement savings. Specifically, the study found that the workforce participation of women age 55 to 64 has climbed from 53.2% in 2000 to 59.2% in 2015.[5] And today as many women as men participate in workplace retirement plans.

More broad-based measures, such as legislative action to eliminate the gender pay gap would go far toward leveling the playing field for women when it comes to retirement readiness, yet such policy matters are complicated and outcomes are impossible to predict.

Beating the Odds

Despite these challenges, many women retire with enough money to relax and enjoy their later years. Here's how they do it:

- Saving as much as they can: This year you can save up to $18,000 in an employer-sponsored retirement plan, plus a $6,000 "catch-up" contribution if you are age 50 or older. Your contributions are made on pretax income, which means you're paying taxes on a lower amount.[6]
- Becoming educated about other sources of retirement income. No matter how committed you are to saving, chances are your employer-sponsored plan won't provide all of the money you'll need once you retire. Find out as much as you can about Social Security -- and strategies for optimizing your benefits -- as well as IRAs and other investments that can help fill in the gaps.[7]
- Make the connection between life expectancy and income needs. Even if you already have a healthy nest egg, it's important to continue saving because you could end up spending 20 or 30 years in retirement, which means you'll have to save that much more.

Regardless of your personal challenges, you can take charge of your financial future -- starting today.

[1] *Society of Actuaries, "Society of Actuaries Releases New Mortality Tables and an Updated Mortality Improvement Scale to Improve Accuracy of Private Pension Plan Estimates," October 27, 2014.*

[2]The National Women's Law Center, "Wage Gap Costs Women More Than $430,000 Over a Career, NWLC Analysis Shows," April 4, 2016.

[3]AARP: Understanding the Impact of Family Caregiving on Work, Fact Sheet 271, October, 2012 and MetLife Mature Market Institute, "The MetLife Study of Caregiving: Costs to Work Caregivers: Double Jeopardy for Baby Boomers Caring For Their Parents," 2011.

[4]Morningstar, "Retirement: The Other Economic Gender Gap," June 7, 2016.

[5]National Institute on Retirement Security, "Shortchanged in Retirement: Continuing Challenges to Women's Financial Future," March 2016.

[6]To make the catch-up contribution, you are first required to save the annual maximum of $18,000.

[7]Distributions from a traditional IRA will be subject to taxation upon withdrawal at then-current rates. Distributions taken prior to age 59½ may be subject to an additional 10% federal tax.

The IRS Clarifies Rules on Rollovers of Retirement Plan Monies

For those participants who are not currently making after-tax contributions, advisors may want to encourage them to do so, if their employer plan allows.

After years of ambiguity around what is and is not allowed regarding the disbursement of after-tax contributions to an employer-sponsored retirement plan, the IRS announced in September of 2014 that plan participants can roll those dollars into a Roth IRA tax free.

IRS Notice 2014-54, "Guidance on Allocation of After-Tax Amounts to Rollovers," provides rules for allocating pretax and after-tax amounts among disbursements that are made to multiple destinations from a qualified plan.[1] Importantly, the Notice provides that all disbursements from a retirement plan made at the same time will be treated as a single distribution even if they are sent to multiple new accounts. Prior to this ruling, the IRS treated distributions from a retirement plan that were rolled over to multiple new accounts as separate distributions, each requiring that a proportional share of pretax and after-tax monies be disbursed.[2]

A Simplified Process

Now individuals holding both pretax and after-tax amounts in their plan can transfer -- through direct, trustee-to-trustee rollovers -- the pretax portion of the distribution (including earnings on after-tax amounts) to a traditional IRA and the after-tax portion of the distribution to a Roth IRA. In the past, this could only be accomplished through indirect 60-day rollovers, not through simplified direct rollovers.[2]

More Clarification, Please

As with many IRS rulings, Notice 2014-54 raised many questions with taxpayers. In response, the IRS recently issued some answers to those commonly asked.

Q: If I have both pretax and after-tax monies in my retirement account, can I roll over just the after-tax monies to a Roth IRA, leaving all of the pretax monies intact?

A: No, the rule does not change the requirement that each distribution from a plan -- including partial distributions -- must include a "proportional share" of the pretax and after-tax amounts.

Example: If your account balance is $100,000 and consists of $80,000 in pretax amounts and $20,000 in after-tax amounts, and you request a distribution of $50,000, your distribution would consist of $40,000 of pretax amounts and $10,000 of after-tax amounts.[2]

In order to roll over all of your after-tax contributions to a Roth IRA, you could take a full distribution (all pretax and after-tax amounts), roll over all the pretax amounts directly to a traditional IRA or another eligible retirement plan, and roll over all the after-tax amounts directly to a Roth IRA.

Q: Can I roll over my after-tax contributions to a Roth IRA and the earnings on my after-tax contributions to a traditional IRA?

Yes, since earnings on after-tax contributions are considered pretax monies, after-tax contributions can be rolled over to a Roth IRA while the earnings on those contributions can be directed to a separate traditional IRA and avoid being taxed until they are distributed.

Plan Sponsors: A New Opportunity

The guidelines present an opportunity for plan sponsors to reach out to participants to determine which individuals have after-tax money in their plans and explain the new rules -- and the new opportunity -- to them. Further, for those participants who are not currently making after-tax contributions, advisors may want to encourage them to do so, if their employer plan allows.

With the current annual pretax contribution limit of $18,500 -- or $25,000 for individuals age 50 or older (for 2018) -- high-earning employees who are not making after-tax contributions are missing out on the chance to sock away significantly more (the annual total contribution cap on defined contribution plans is $55,000 in 2018) while benefitting from tax deferral of potential investment growth.

[1] *The Internal Revenue Service, Notice 2014-54, Guidance on Allocation of After-Tax Amounts to Rollovers, September 18, 2014.*

[2] The Internal Revenue Service, *Employee Plans News*, December 23, 2014.