SLEEP WELL AT NIGHT

My Modern Family

First off, thanks to all of you who had such nice things to say about our new and improved newsletter! We weren't sure how many of you would toss it into your recycle bin or take a few minutes to scan the articles. We do our best to include some interesting and eye-opening stories so we hope you will check it out every quarter. Your feedback is important to me, good or bad or even indifferent. We always love to hear from you.

That being said, if you haven't come to see me in a while, our office on Highway 101 in downtown Encinitas is completely remodeled thanks to my lovely wife, V, my assistant Darlene and a pretty great decorator.

I was skeptical at first, but they did an amazing job. Stop by if you're in the area and I'll buy you a cup of coffee and the best salad you've ever had at St. Tropez downstairs from me.

With Mother's Day coming up, I can't pass up the opportunity to send my love to all of the Mom's out there who do what you do every day with a smile on your face. Whether you work full-time or stay at home with the kids, it is truly the hardest job on the planet and the most important job there is.

No doubt this year V will have breakfast in bed and a day without "Mommy!" on duty 24/7. For all of you out there, grandma's included, enjoy this very special day and let those that love you spoil you rotten.

As always, you can reach me directly at 760-436-1711 or jim@jimleefinancial.com

Take care,

Jim Lee

TABLE OF CONTENTS:

Don't Miss the Match

Are you taking full advantage of your company's 401(k)?

Provided by Jim Lee

The 401(k) plan is one of the most widely-utilized wealth creation tools offered Americans. These retirement savings plans have several advantages, including dollar cost averaging, tax savings and tax deferral. However, one of the most powerful advantages is the company match. If your company offers a match, are you making the most of it?

Not taking advantage of the company match is like passing up "free money". Most rational people don't walk past a $5 bill on the ground without picking it up, but that's what people do every day when they don't contribute enough to their 401(k) to get the full company match. A full one-third of employees don't take advantage of this feature, and it may make their retirement less comfortable.[1]

In a typical plan an employer will match 50% of an employee's contributions - up to 6% of their salary.[1] Let's say an employee with that type of plan decides he can't afford to contribute 6%, but instead chooses to put away 2% of his salary into his 401(k) account. If he's earning $75,000 a year, his account balance (assuming no growth) will be $2,250 by year's end. That's $1,500 of his own money as well as $750 of his employer's money. If the same person had contributed 6% he would end the year with $6,750 - including $4,500 of his contributions and $2,250 of his employer's.

By investing just $3,000 more dollars each year ($4,500-$1,500), the employee can make an immediate $1,500 ($2,250-$750). It's hard to make that type of return in any other environment.

This isn't a 401(k) plan's only benefit. The higher account balances from making the most of a company match is magnified further by three other advantages of a 401(k) plan.

Regular investments into your 401(k) may help to reduce risk. Putting a pre-determined amount of money into an investment at regular intervals – as with your 401(k) - is called dollar cost averaging. This is believed, by many experts, to aid in reducing the overall risk of investing by helping an investor avoid buying at market highs. A dollar cost averaging program allows investors to buy more shares when market prices dip. This lowers the average cost of each share purchased. If the share prices go up, the lower cost provides greater return.[2]

Investing in your 401(k) plan is an immediate tax savings. The reason? Every dollar put into the plan avoids being taxed as income.

For example, let's assume you decide to put $100 per paycheck into your 401(k) plan and you pay 25% of your income in taxes. On payday, $100 will go into your 401(k) plan. However, if you decided against investing in your 401(k), then you'll only get an additional $75 in your paycheck after taxes. That additional $25 is, essentially, a reward from the IRS for saving for retirement.[3]

Finally, contributing to your 401(k) allows those investments to grow tax-deferred. With most investments, you'll pay tax on any interest, dividends, capital gains, or proceeds from selling an investment each year. A 401(k) is a shelter from those taxes. As long as you keep the funds in your 401(k), your dollars can grow without having to give a share to the IRS. Over time, this can be a tremendous benefit.

For example, a $10,000 account balance in a traditional investment for 30 years, with a tax rate of 30%, would only grow to $27,970. If those same dollars grew at 6% in a 401(k), they could grow to $33,043 over 25 years.[4] That's an additional $5,073 to enjoy during retirement.

Maximizing the company match with the inherent tax benefits of a 401(k) can go a long way toward helping achieve the goal of so many Americans … a comfortable retirement.

1. http://www.usnews.com/money/personal-finance/retirement/articles/2008/05/13/3-mistakes-to-avoid-with-your-401k.html
2. http://beginnersinvest.about.com/cs/newinvestors/a/041901a.htm
3. http://money.cnn.com/magazines/moneymag/money101/lesson23/index2.htm
4 http://www.newyorklife.com/nyl/v/index.jsp?vgnextoid=3e07a2b3019d2210a2b3019d221024301cacRCRD

A RETIREMENT PLANNING TIMELINE

Provided by Jim Lee

30 … 40 … 50 … as time goes by, make sure you accelerate your planning.

When should you start saving for retirement? When do you really need to get serious about planning your retirement transition? Well, it depends on many factors. But along the timeline of life, there are certain things you might consider doing at certain ages. Your retirement planning can begin early in life, and remember that today is never too late.

In your thirties. Hopefully, you joined the retirement plan at your workplace right after you were hired, and you've contributed to that plan consistently. If not, you can start doing so. If your employer matches employee contributions, then contribute enough to trigger that match.
Think about contributing slightly higher percentages of your income to the plan each year. This is also a good time to think ahead and adopt a long-range investment strategy, with defined goals in mind.

In your forties. This is a time when too many people go on autopilot when it comes to saving and planning for the future. At some point in your forties, it will be wise to confer with a qualified financial advisor to measure your retirement planning progress. You may not be saving enough, and you may need to catch up.

In your fifties. Of course, the federal government will let you "catch up" when you hit 50 – at least in terms of IRA contributions. At 50, you can not only contribute the maximum annual amount to your IRA ($5,000 for 2013, with an April 15 postmark deadline to earmark your contribution for tax year 2012), you can add $1,000 more each year in "catch up" contributions.[1] If you choose to retire in your fifties, you can pull penalty-free distributions out of your 401(k) beginning at age 55 if you really need the liquidity (but those withdrawals are subject to income tax).[2] At 59.5, you can tap into your IRA and other retirement accounts without a 10% early withdrawal penalty (if you have a traditional IRA, your withdrawal will generally be subject to tax unless you are using the money to buy a first home or fund education expenses).[3]

In your sixties. At 62, you can receive early Social Security benefits, but your SSI will be correspondingly cut by 25% or greater for the duration of your lifetime.[4] You can receive full benefits between 65 and 67. You may also choose to review and modify your portfolio at this point, adjusting for risk. A retirement plan rollover will encourage further tax-deferred growth of your accumulated assets.

In your seventies. At 70, even those who work have to sign up for Social Security benefits. At 70 comes the first mandatory IRA distribution. At this stage of life, you should also have a relationship with a retirement advisor you trust.

Citations
1 investopedia.com/articles/retirement/04/111004.asp
2 kiplinger.com/columns/starting/archive/2007/st1003.htm
3 bankrate.com/brm/itax/tips/20030410a1.asp
4 money.cnn.com/2007/06/06/pf/retirement/social_security_early/index.htm

JIM LEE FINANCIAL / LICENSED INSURANCE PROFESSIONAL

937 S. Coast Highway, Suite C-206 Encinitas, CA 92024
O: 760.436.1711 F: 760.268.9879 **www.jimleefinancial.com** CA INS LIC #0710939