



## Vision Financial Advisory

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Summer weather and activities have arrived!

The markets have been generally moving in a positive direction, with multiple indexes at or near all-time highs. Higher account values provide a good opportunity to re-evaluate your situation in terms of growth trajectory, cash-flow projections for retirement, and how your remaining assets will pass to your heirs.

If you don't have a will, please call me to discuss starting this process, and also whether or not a trust makes sense for you. And, if you have questions about your investments or potential adjustments to make in light of your situation, we would love to hear from you.

As always, thank you for your business!

-jv  
**June 2017**

Why Diversification Matters

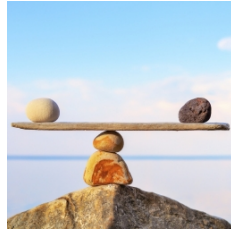
Converting Retirement Savings to Retirement Income

Are you ready to retire?

What happens to my property if I die without a will?



## Balanced Funds: Seeking Growth and Stability



Since 2001, investment in balanced mutual funds, which hold a mix of stocks and bonds, has grown every year except in 2008, the heart of the recession, and in 2015 when a stagnant market led some investors to look

for more aggressive growth opportunities.

During the same period, investment in equity and bond funds has tended to rise and fall with stock and bond prices.<sup>1</sup>

### Appeal of simplicity

The appeal of these hybrid funds may reflect the simplicity of putting an asset allocation strategy to work in a single investment. Asset allocation does not guarantee a profit or protect against investment loss; it is a widely used method to help manage investment risk.

### Stocks and bonds working together

Because stocks and bonds tend to perform differently in different market conditions, many investors include both in their portfolios, either as individual securities or within mutual funds. Though stocks provide greater growth potential, bonds tend to be more stable, with modest potential for growth. Together, they may result in a less volatile portfolio that might not grow as fast as a stock-only portfolio during a rising market, but may not lose as much during a market downturn.

Balanced funds attempt to follow a similar strategy in a single investment. The fund manager typically strives for a specific mix, such as 60% stocks and 40% bonds, but the balance might vary within limits spelled out in the prospectus. Theoretically, the stocks in the fund provide the potential for gains, while the bonds may help reduce the effects of market volatility. Some balanced funds also include cash alternatives.

### Three objectives

Balanced funds generally have three objectives: conserve principal, provide income, and pursue long-term growth. Of course, there

is no guarantee that a fund will meet its objectives.

When investing in a balanced fund, you should consider the fund's asset mix, objectives, and rebalancing guidelines as the asset mix changes due to market performance. Rebalancing is typically necessary to keep a balanced fund on track but could create a taxable event for investors.

### Core holding

Although balanced funds may include a variety of stocks and bonds, they are generally not intended to be the only investment in a portfolio because they may not be sufficiently diversified. Like asset allocation, diversification — the mix of investments within a given asset class — is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Instead, a balanced fund that contains an appropriate asset mix for your age and risk tolerance could be a core holding that enables you to pursue diversification and other goals through a wider range of investments. For example, you may want to invest in a variety of individual securities or funds that focus on different types of stock or bonds than those in the balanced fund.

The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance.

*Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus — which contains this and other information about the investment company — can be obtained from your financial professional. You should read the prospectus carefully before investing.*

<sup>1</sup> 2016 Investment Company Factbook, Investment Company Institute





**Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.**

## Why Diversification Matters

When investing, particularly for long-term goals, there is one concept you will likely hear about over and over again — diversification. Why is diversification so important? The simple reason is that it helps ensure that your risk of loss is spread among a number of different investments. The theory is that if some of the investments in your portfolio decline in value, others may rise or hold steady, helping to offset the losses.

### Diversifying within asset classes

For example, say you wanted to invest in stocks. Rather than investing in just domestic stocks, you could diversify your portfolio by investing in foreign stocks as well. Or you could choose to include the stocks of different size companies (small-cap, mid-cap, and/or large-cap stocks).

If your primary objective is to invest in bonds for income, you could choose both government and corporate bonds to potentially take advantage of their different risk/return profiles. You might also choose bonds of different maturities, because long-term bonds tend to react more dramatically to changes in interest rates than short-term bonds. As interest rates rise, bond prices typically fall.

### Investing in mutual funds

Because mutual funds invest in a mix of securities chosen by a fund manager to pursue the fund's stated objective, they can offer a certain level of "built-in" diversification. For this reason, mutual funds may be an appropriate choice for novice investors or those wishing to take more of a hands-off approach to their portfolios. Including a variety of mutual funds with different objectives and securities in your portfolio will help diversify your holdings that much more.

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### Diversifying among asset classes

You might also consider including a mix of different types of asset classes — stocks, bonds, and cash — in your portfolio. Asset allocation is a strategic approach to diversifying your portfolio. After carefully considering your investment goals, time horizon, and risk tolerance, you would then invest different percentages of your portfolio in targeted asset classes to pursue your goal.

### Winning asset classes over time

The following table, which shows how many times during the past 30 years each asset class has come out on top in terms of performance, helps illustrate why diversifying among asset classes can be important.

	Number of winning years, 1987-2016
Cash	3
Bonds	5
Stocks	10
Foreign stocks	12

Performance is from December 31, 1986, to December 31, 2016. Cash is represented by Citigroup 3-month Treasury Bill Index. Bonds are represented by the Citigroup Corporate Bond Index, an unmanaged index. Stocks are represented by the S&P 500 Composite Price Index, an unmanaged index. Foreign stocks are represented by the MSCI EAFE Price Index, an unmanaged index. Investors cannot invest directly in any index. However, these indexes are accurate reflections of the performance of the individual asset classes shown. Returns reflect past performance and should not be considered indicative of future results. The returns do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing.

The principal value of cash alternatives may fluctuate with market conditions. Cash alternatives are subject to liquidity and credit risks. It is possible to lose money with this type of investment.

The return and principal value of stocks may fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, whereas corporate bonds are not. The principal value of bonds may fluctuate with market conditions. Bonds are subject to inflation, interest rate, and credit risks. Bonds redeemed prior to maturity may be worth more or less than their original cost.

The risks associated with investing on a worldwide basis include differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country.

Investments offering the potential for higher rates of return also involve higher risk.



**Regardless of which path you choose with your retirement accounts, keep in mind that generally, you'll be required to begin taking minimum distributions from employer-sponsored plans and traditional IRAs in the year you reach age 70½; you can delay your first distribution as late as April 1 of the following year.**

**Taxable distributions from traditional employer-sponsored plans and IRAs prior to age 59½ may be subject to a 10% penalty tax, unless an exception applies.**

**Different rules apply to Roth accounts. For information on how Roth accounts may fit into your retirement income picture, talk to a financial professional.**

## Converting Retirement Savings to Retirement Income

You've been saving diligently for years, and now it's time to think about how to convert the money in your traditional 401(k)s (or similar workplace savings plans) into retirement income. But hold on, not so fast. You may need to take a few steps first.

### Evaluate your needs

If you haven't done so, estimate how much income you'll need to meet your desired lifestyle in retirement. Conventional wisdom says to plan on needing 70% to 100% of your annual pre-retirement income to meet your needs in retirement; however, your specific amount will depend on your unique circumstances. First identify your non-negotiable fixed needs — such as housing, food, and medical care — to get clarity on how much it will cost to make basic ends meet. Then identify your variable wants — including travel, leisure, and entertainment. Segregating your expenses into needs and wants will help you develop an income strategy to fund both.

### Assess all sources of predictable income

Next, determine how much you might expect from sources of predictable income, such as Social Security and traditional pension plans.

**Social Security:** At your full retirement age (which varies from 66 to 67, depending on your year of birth), you'll be entitled to receive your full benefit. Although you can begin receiving reduced benefits as early as age 62, the longer you wait to begin (up to age 70), the more you'll receive each month. You can estimate your retirement benefit by using the calculators on the SSA website, [ssa.gov](https://ssa.gov). You can also sign up for a my Social Security account to view your Social Security Statement online.

**Traditional pensions:** If you stand to receive a traditional pension from your current or a previous employer, be sure to familiarize yourself with its features. For example, will your benefit remain steady throughout retirement or increase with inflation? Your pension will most likely be offered as either a single life or joint-and-survivor annuity. A single-life annuity provides benefits until the worker's death, while a joint-and-survivor annuity generally provides reduced benefits until the survivor's death.<sup>1</sup>

If it looks as though your Social Security and pension income will be enough to cover your fixed needs, you may be well positioned to use your other assets to fund those extra wants. On the other hand, if your predictable sources are not sufficient to cover your fixed needs, you'll need to think carefully about how to tap your

retirement savings plan assets, as they will be a necessary component of your income.

### Understand your savings plan options

A key in determining how to tap your retirement plan assets is to understand the options available to you. According to the Government Accountability Office (GAO), only about one-third of 401(k) plans offer withdrawal options, such as installment payments, systematic withdrawals, and managed payout funds.<sup>2</sup> And only about a quarter offer annuities, which are insurance contracts that provide guaranteed income for a stated amount of time (typically over a set number of years or for the life expectancy of the participant or the participant and spouse).<sup>3</sup>

Plans may allow you to leave the money alone or require you to take a lump-sum distribution. You may also choose to roll over the assets to an IRA, which might offer a variety of income and investment opportunities, including the purchase of annuity contracts. If you choose to work part-time in retirement, you may be allowed to roll your assets into the new employer's plan.

Determining the right way to tap your assets can be challenging and should take into account a number of factors. These include your tax situation, whether you have other assets you'll use for income, and your desire to leave assets to heirs. A financial professional can help you understand your options.

<sup>1</sup>Current law requires married couples to choose a joint-and-survivor annuity unless the spouse waives those rights.

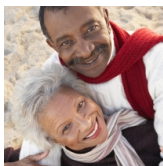
<sup>2</sup>"401(k) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants," GAO Report to Congressional Requesters, August 2016

<sup>3</sup>Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company. It is important to understand that purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits other than those available through the tax-deferred retirement plan.

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### Are you ready to retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

#### *Is your nest egg adequate?*

It may be obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off your retirement savings. The average American can expect to live past age 78.\* With future medical advances likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

#### *When will you begin receiving Social Security benefits?*

You can receive Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

#### *How will retirement affect your IRAs and employer retirement plans?*

The longer you delay retirement, the longer you can build up tax-deferred funds in traditional IRAs and potentially tax-free funds in Roth

IRAs. Remember that you need taxable compensation to contribute to an IRA.

You'll also have a longer period of time to contribute to employer-sponsored plans like 401(k)s — and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not fully vested.)

#### *Will you need health insurance?*

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or an individual policy from a private insurer or the health insurance marketplace — which could be an expensive proposition.

#### *Is phasing into retirement right for you?*

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.

\* NCHS Data Brief, Number 267, December 2016



### What happens to my property if I die without a will?

If you die without a will, your property will generally pass according to state law (under the rules for intestate succession). When this

happens, the state essentially makes a will for you. State laws specify how your property will pass, typically in certain proportions to various persons related to you. The specifics, however, vary from state to state.

Most state laws favor spouses and children first. For example, a typical state law might specify that your property pass one-half or one-third to your surviving spouse, with the remainder passing equally to all your children. If you don't have children, in many states your spouse might inherit all of your property; in other states, your spouse might have to share the property with your brothers and sisters or parents.

But not all property is transferred by will or intestate succession. Regardless of whether you have a will, some property passes automatically to a joint owner or to a designated beneficiary. For example, you can transfer property such as IRAs, retirement plan benefits,

and life insurance by naming a beneficiary.

Property that you own jointly with right of survivorship will pass automatically to the surviving owners at your death. Property held in trust will pass to your beneficiaries according to the terms you set out in the trust.

Only property that is not transferred by beneficiary designation, joint ownership, will, or trust passes according to intestate succession. You should generally use beneficiary designations, joint ownership, wills, and trusts to control the disposition of your property so that you, rather than the state, determine who receives the benefit of your property.

Even if it seems that all your property will be transferred by beneficiary designation, joint ownership, or trust, you should still generally have a will. You can designate in the will who will receive any property that slips through the cracks.

And, of course, you can do other things in a will as well, such as name the executor of your estate to carry out your wishes as specified in the will, or name a guardian for your minor children.