March 1, 2017

Catch the wave & learn to save

Webinar Q&A

1. **I have a [defined benefit] pension plan from my employer, do I still need to save 10-15%?**

   10-15% is a general guideline. A pension may provide some of your income in retirement and so can social security but any shortfall is going to need to come from your personal savings. You may be able to decrease this savings rate but we would still recommend you save as much as you can for retirement.

2. **Can you explain the key difference between a Roth IRA & Traditional Individual Retirement Account (IRA)?**

   Traditional IRA contributions are tax deductible on both state and federal tax returns for the year you make the contribution, while withdrawals in retirement are taxed at ordinary income tax rates. Roth IRAs provide no tax break for contributions, but investment earnings and withdrawals are generally tax-free. Also, traditional IRAs are subject to Required Minimum Distributions (RMD) and Roth IRAs are not.

3. **Is a Roth IRA and Roth 401(k) the same thing? Can I invest in both?**

   No, Roth IRA and Roth 401(k) are different. Both may provide tax-free distributions in retirement and require contributions with after-tax dollars. However a Roth 401(k) is offered through your employer versus a Roth IRA which is initiated by an individual. Also, there are no income limitations contributing to a Roth 401(k) but you may be limited under an IRA. Finally, the amount you can contribute on an annual basis is a major difference—generally, you can contribute up to $18,000 per year in a Roth 401(k) versus $5,500 per year for a Roth IRA (additional “catch up” contributions apply if you are over 50 years old).

4. **Is now a good time to invest in equities or are the markets too hot?**

   As equity markets continue to hit new highs (the Dow is up over 300 point as we speak), apprehension about getting into the market at these levels is not misplaced. That being said, market timing is a game that’s easy to get wrong—you need to make 2 right decisions: when to get in and when to get out. Being out of the market can be even more costly. If you are looking to increase your exposure to equities in an uncertain market (or any asset class you may be apprehensive about), consider using dollar-cost averaging over a couple of months in order to invest in different market environments until you reach your target allocation.

5. **What are the main differences between Exchange Traded Funds (ETFs) and mutual funds?**

   ETFs are exchange traded funds. Like mutual funds, they offer diversification at a reasonable price. The key difference is that you can trade ETFs throughout the day. With mutual funds you can only buy or sell at the closing price. That is a primary difference. Another difference is that ETFs generally don’t pay out capital gains distributions while mutual funds do; from a tax perspective that may or may not be of interest to you.

6. **How can an individual find out more about a mutual fund manager?**

   There are several ways to learn more about a fund manager: 1. Visit the fund manager's website. For example if you are investing in the Oakmark International fund you can go to Oakmark's website and get some literature there. 2. Reach out to a financial advisor for information. 3. You can also use Morningstar, a company that rates mutual funds and provides various analyst reports on funds as well (www.morningstar.com).

7. **Can you help with both required minimum distributions (RMD) and looking at different withdrawal strategies based on my expense needs?**

   Yes, we can assist you with calculating RMD payments. It's critical to make sure you are taking these distributions at the appropriate time—if you do not, you will likely be subject to penalties. We work very closely with clients to explore the pros and cons of various withdrawal strategies in conjunction with your spending plans in retirement.

8. **How can I use my Health Savings Account (HSA) as a retirement savings vehicle?**

   You may be able to contribute to an HSA if you are enrolled in a high-deductible health insurance plan. HSA plans offer a rare triple-tax benefit. Contributions to HSAs are made with pretax dollars (in most states), assets grow tax-free, and distributions are tax-free if used to pay for qualified medical expenses. Withdrawals for qualified medical expenses can be taken at any time. For instance, retirees with balances that have been building over time can take tax-free withdrawals for qualified medical expenses incurred years earlier.

9. **Do you recommend investing 401(k) money in target date funds? If so, does it make sense to diversify to other investment options as well or simply put all money into the target date fund?**

   A target date fund is a mutual fund designed to automatically reduce exposure to riskier asset classes as you approach retirement age. To select an appropriate target date fund, you choose the one that closely aligns with your prospective year of retirement and the fund manager will rebalance periodically to create an ideal mix of assets. As with any investment vehicle there are pros and cons. A target date fund may be a good fit for you as you begin your retirement savings, but as you approach retirement you may want something that meets your specific needs. If the target date fund does not meet all of your needs, you can supplement with other investments to get a more customized plan. If rebalancing your portfolio, constructing an allocation and researching different investment options does not interest you, target date funds are a great option.

The content contained in this presentation is (1) informational only and should not be construed as investment advice; (2) obtained from sources deemed to be reliable but is not warranted by HHIA to be accurate, complete, or timely. HHIA does not accept liability for any losses, direct or indirect, sustained in connection with the use of this content.

Investment advice should be based on an organization's or individual's specific factors and circumstances. HHIA recommends that you consult with a qualified investment advisor for guidance regarding your particular situation on appropriate investment strategies for your portfolio. HHIA also recommends that you consult with a qualified tax specialist when considering appropriate strategies for managing your tax liabilities.

Investment advice is offered through Hooker & Holcombe Investment Advisors, Inc. ("HHIA"), an SEC Registered Investment Adviser.

© Hooker & Holcombe

h&h®
hooker & holcombe