Vue Financial Services

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January 2017

Playing Catch-Up with Your 401(k) or IRA

A recent survey of baby boomers (ages 53 to 69) found that just 24% were confident they would have enough money to last throughout retirement. Forty-five percent had no retirement savings at all, and of those who did have savings, 42% had saved less than $100,000.[1]

Your own savings may be on more solid ground, but regardless of your current balance, it's smart to keep it growing. If you're 50 or older, you could benefit by making catch-up contributions to tax-advantaged retirement accounts. You might be surprised by how much your nest egg could grow late in your working career.

Contribution limits

The federal contribution limit in 2016 and 2017 for all IRAs combined is $5,500, plus a $1,000 catch-up contribution for those 50 and older, for a total of $6,500. An extra $1,000 might not seem like much, but it could make a big difference by the time you're ready to retire (see table). You have until the April 18, 2017, tax filing deadline to make IRA contributions for 2016. The sooner you contribute, the more time the funds will have to pursue potential growth.

The deferral limit in 2016 and 2017 for employer-sponsored retirement plans such as 401(k), 403(b), and most 457(b) plans is $18,000, plus a $6,000 catch-up contribution for workers 50 and older, for a total of $24,000. However, some employer-sponsored plans may have maximums that are lower than the federal contribution limit. Unlike the case with IRAs, contributions to employer-sponsored plans must be made by the end of the calendar year, so be sure to adjust your contributions early enough in the year to take full advantage of the catch-up opportunity.

The following table shows the amount that a 50-year-old might accrue by age 65 or 70, based on making maximum annual contributions (at current rates) to an IRA or a 401(k) plan:

Potential Savings a 50-Year-Old Could Accumulate		Without Catch-Up	With Catch-Up
IRA	By Age 65	$128,018	$151,294
	By Age 70	$202,321	$239,106
401(k)	By Age 65	$418,697	$558,623
	By Age 70	$662,141	$882,854

Example assumes a 6% average annual return. This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent any specific investment. It assumes contributions are made at end of the calendar year. Rates of return vary over time, particularly for long-term investments. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary.

Special 403(b) and 457(b) plan rules

403(b) and 457(b) plans can (but aren't required to) provide their own special catch-up opportunities. The 403(b) special rule, available to participants with at least 15 years of service, may permit an additional $3,000 annual deferral for up to five years (certain additional limits apply). A participant can use this special rule and the age 50 catch-up rule in the same year. Therefore, a participant eligible for both could contribute up to $27,000 to his or her 403(b) plan account (the $18,000 regular deferral limit, plus the $3,000 special catch-up, plus the $6,000 age 50 catch-up).

The 457(b) plan special rule allows participants who have not deferred the maximum amount in prior years to contribute up to twice the normal deferral limit (that is, up to $36,000 in 2016 and 2017) in the three years prior to reaching the plan's normal retirement age. (However, these additional catch-up contributions can't exceed the total of the prior years' unused deferrals.) 457(b) participants who elect to use this special catch-up rule cannot also use the age 50 catch-up rule in the same year.

[1] "Boomer Expectations for Retirement 2016," Insured Retirement Institute.

Are You Ending 2016 Healthy, Wealthy, and Wise?

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Although the year is drawing to a close, you still have time to review your finances. Pausing to reflect on the financial progress you made in 2016 and identifying adjustments for 2017 can help you start the new year stronger than ever.

How healthy are your finances?

Think of a year-end review as an annual physical for your money. Here are some questions to ask that will help assess your financial fitness.

- Do you know how you spent your money in 2016? Did you make any progress toward your financial goals? Look for spending habits (such as eating out too much) that need tweaking, and make necessary adjustments to your budget.
- Are you comfortable with the amount of debt that you have? Any end-of-year mortgage, credit card, and loan statements will spell out the amount of debt you still owe and how much you've been able to pay off this year.
- How is your credit? Having a positive credit history may help you get better interest rates when you apply for credit, potentially saving you money over the long term. Check your credit report at least once a year by requesting your free annual copy through the federally authorized website annualcreditreport.com.
- Do you have an emergency savings account? Generally, you should aim to set aside at least three to six months' worth of living expenses. Having this money can help you avoid piling up more credit-card debt or shortchanging your retirement or college savings because of an unexpected event such as job loss or illness.
- Do you have an adequate amount of insurance? Your insurance needs may change over time, so it's a good idea to review your coverage at least once a year to make sure it still meets your needs.

How wealthy are you really?

It's easy to put your retirement savings on autopilot, especially if you're making automatic contributions to a retirement account. But market swings this year may have affected your retirement account balances, so review any statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relation to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions*?

Finally, look for ways to save more. For example, if you receive a pay increase this year, don't overlook the opportunity to increase your employer-sponsored retirement plan contributions. Ask your employer to set aside a higher percentage of your salary.

How wise are you about financial matters?

What you don't know can hurt you, so it's time to honestly assess your financial picture. Taking into account your income, savings and investments, and debt load, did your finances improve this year? If not, what can you do differently in 2017?

What are your greatest financial concerns? Do you have certain life events coming up that you need to prepare for, such as marriage, buying a home, or sending your child off to college? You can't know everything, so don't put off asking for assistance. It's a wise move that can help you prepare for next year's financial challenges.

Year-End Financial Checklist

- ✓ Review your benefits during your employer's open enrollment season, and make any necessary changes before your employer's deadline.
- ✓ Use up any contributions to your flexible spending account (FSA) before the use-it-or-lose-it deadline (this may be the end of the year–check with your employer).
- ✓ Update estate planning documents such as wills, trusts, and health-care directives to account for life changes.
- ✓ Review and update beneficiaries for your financial accounts and insurance policies.
- ✓ Make year-end donations to charity. If you itemize, these may help reduce your taxable income for 2016.*
- ✓ Consider gifts to family members. For 2016, you may give up to $14,000 to each individual without owing gift taxes.*
- ✓ Begin organizing your financial records for tax time.
- ✓ Check your Social Security Statement at ssa.gov to find out about future benefits.

*Talk to a tax professional for help with your individual situation.

Growth, Value, or Both

"I always say if you aren't investing for value, what are you investing for? And the idea that value and growth are two different things makes no sense.... Growth is part of the value equation."

—Warren Buffett

The terms growth and value are often used to describe two different investment strategies, yet many investors may want both qualities in an investment. Famed investor Warren Buffett put it this way in a 2015 interview: "I always say if you aren't investing for value, what are you investing for? And the idea that value and growth are two different things makes no sense.... Growth is part of the value equation."[1]

Even so, analysts may look at specific stocks as offering more growth potential than value, and vice versa. And these concepts are used to construct many mutual funds and exchange-traded funds (ETFs). So it's helpful to understand the opposing ideas, even if you want the best of both in your portfolio.

Poised to grow?

As the name suggests, growth stocks are associated with companies that appear to have above-average growth potential. These companies might be on the verge of a market breakthrough or acquisition, or they may occupy a strong position in a growing industry.

Growth companies may place more emphasis on reinvesting profits than on paying dividends (although many large growth companies do offer dividends). Investors hope to benefit from future capital appreciation of growth stocks, which tend to be considered higher risk than value stocks. However, it's equally important for growth and value stocks to have strong fundamentals.

Undervalued?

Value stocks are associated with companies that appear to be undervalued by the market or are in an industry that is currently out of favor. Unlike growth stocks, which might seem expensive and overvalued, value stocks may be priced lower in relation to their earnings, assets, or growth potential.

Established companies are more likely than younger companies to be considered value stocks, and these firms may emphasize paying dividends over reinvesting profits. An investor who purchases a value stock typically expects the broader market to eventually recognize the company's full potential, which may result in rising share prices. One risk with this approach is that a stock considered to be undervalued because of legal or management difficulties or tough competition might not be able to recover from the setback.

Focused funds

Identifying specific growth or value investments requires time, knowledge, and experience to analyze stock data. A more convenient and accessible way to add growth or value stocks to your portfolio may be through mutual funds or ETFs that focus on these categories. Such funds often have the word "growth" or "value" in their names. However, there could be a wide variety of objectives and stock holdings among funds labeled growth or value.

Also keep in mind that you might find growth, value, or both in a broad range of investments that do not employ growth or value strategies.

Diversification

Holding growth and value stocks and/or funds is one way to diversify the stock portion of your portfolio. Over the past 20 years, the average annual return for value stocks was about 1.5 percentage points higher than that of growth stocks (8.54% versus 7.02%). Yet growth stocks outperformed value stocks in eight of those years — in some years by large margins. This suggests that growth and value stocks may respond differently to varying market conditions.[2]

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

The return and principal value of stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Mutual funds and ETFs 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. Be sure to read the prospectus carefully before deciding whether to invest.

[1] CNBC.com, March 2, 2015

[2] Thomson Reuters, 2016, for the period 9/30/1996 to 9/30/2016. Growth stocks are represented by the Russell 3000 Growth Index. Value stocks are represented by the Russell 3000 Value Index. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results.

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How can I pay off the credit card debt I racked up over the holidays?

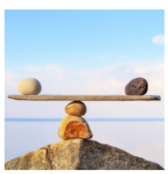
It's a common occurrence once the holiday season winds down — you reluctantly look at your credit card statement and wince at all the purchases you made over the holidays. Fortunately, there's no need to panic. Consider using one of the following strategies to help pay it off.

Make a lump-sum payment. The best way to pay off credit card debt is with a single lump-sum payment, which would allow you to pay off your balance without owing additional interest. Look for sources of funds you can use for a lump-sum payoff, such as an employment bonus or other windfall. However, most individuals find themselves getting into credit card debt due to a lack of cash on hand in the first place, so this may not be an option for everyone.

Pay more than the minimum due. If it's not possible for you to pay off your balance entirely, always be sure to pay more than the required minimum payment due. Otherwise, you'll continue to carry the bulk of your balance forward without actually reducing your overall balance. You can refer to your monthly statement for more information on the impact that minimum payments will have on your credit card balance.

Prioritize your payments. If you have multiple credit cards that carry outstanding balances, another payoff strategy is to prioritize your payments and systematically pay off your credit card debt. Start by making a list of your credit cards and prioritize them according to their interest rates. Send the largest payment to the card with the highest interest rate. Continue making payments on your other cards until the card with the highest interest rate is paid off. You can then focus your repayment efforts on the card with the next highest interest rate, and so on, until they're all paid off.

Transfer your balances. Another option is to transfer your balances to a card that carries a lower interest rate. Many credit card companies offer highly competitive balance transfer offers (e.g., 0% interest for 12 to 24 months). Balance transfers may enable you to reduce interest fees and pay more against your existing balance. Keep in mind that credit cards often charge a fee for balance transfers (usually a percentage of the balance transferred).



Should I pay off my student loans early or contribute to my workplace 401(k)?

For young adults with college debt, deciding whether to pay off student loans early or contribute to a 401(k) can be tough. It's a financial tug-of-war between digging out from debt today and saving for the future, both of which are very important goals. Unfortunately, this dilemma affects many people in the workplace today. According to a student debt report by The Institute for College Access and Success, nearly 70% of college grads in the class of 2014 had student debt, and their average debt was nearly $29,000. This equates to a monthly payment of $294, assuming a 4% interest rate and a standard 10-year repayment term.

Let's assume you have a $300 monthly student loan payment. You have to pay it each month--that's non-negotiable. But should you pay more toward your loans each month to pay them off faster? Or should you contribute any extra funds to your 401(k)? The answer boils down to how your money can best be put to work for you.

The first question you should ask is whether your employer offers a 401(k) match. If yes, you shouldn't leave this free money on the table. For example, let's assume your employer matches $1 for every dollar you save in your 401(k), up to 6% of your pay. If you make $50,000 a year, 6% of your pay is $3,000. So at a minimum, you should consider contributing $3,000 per year to your 401(k)--or $250 per month--to get the full $3,000 match. That's potentially a 100% return on your investment.

Even if your employer doesn't offer a 401(k) match, it can still be a good idea to contribute to your 401(k). When you make extra payments on a specific debt, you are essentially earning a return equal to the interest rate on that debt. If the interest rate on your student loans is relatively low, the potential long-term returns earned on your 401(k) may outweigh the benefits of shaving a year or two off your student loans. In addition, young adults have time on their side when saving for retirement, so the long-term growth potential of even small investment amounts can make contributing to your 401(k) a smart financial move.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.

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