Ullico
Retirement Solutions
PARTICIPANT INSIGHTS

Volume 13, Issue 3 - www.ullico-urs.com - (888) 292-6861 - July 2018

Zoom Theory

By Debra Moran, QPA, QKA

Even folks that are appropriate risk takers can get nervous when the markets become unsettled. But if you have designed your portfolio to help withstand the inevitable spells of market volatility - taking into account your time horizon to retirement - it is time to Zoom out and look long term.

So what is Zoom Theory? According to Vanguard, it's a mental version of those zoom tools on the web. It works like this: We, as humans, are susceptible to what behavioral finance experts call "recency bias," the tendency to overweight recent experiences when forming a view of the future. That is why we say that we can tolerate volatility when returns are strong, only to ask if we should sell when asset prices fall. We zoom in.

Instead, we need to remind ourselves to zoom out by looking at how, over longer time periods, weathering short-term declines can help our portfolios grow. Since inception through 2017, average annual returns of the S&P 500 Index of 12.06% and the Barclays US Aggregate Bond Index of 7.65% give investors the false impression that these returns are the norm. In reality, there have been few years when either stocks or bonds delivered average returns; often returns are higher or lower than average. Financial markets, especially stocks, are inherently volatile over the short term. But to benefit from long-term market performance, investors should typically temper their expectations and stay the course. Investing is not a sprint, but rather a marathon.

Just take a look at the S&P 500 in the table below and you can see the percentage of time that an investor has come out on top over different historical time periods.

The S&P 500
1926 - 2017

Time Frame	Positive	Negative
Monthly	63%	37%
Quarterly	69%	31%
One Year	75%	25%
5 Years	88%	12%
10 Years	95%	5%
20 Years	100%	0%

Source: Dimensional Returns 2.0

Playing with FIRE

By Ryanne Harmann, QKA

FIRE stands for Financial Independence, Retire Early. It's a movement characterized by people who find ways to be frugal and save large percentages of their income; therefore accumulating wealth earlier than most and having the ability to retire early – in their 40s, 30s, and even 20s.

Who doesn't love the idea of retiring early? Despite its name, this movement is actually much more about having enough money to have the flexibility to retire early. It's that flexibility that motivates people to become what others call "FIREballers".

The movement defines Financial Independence as having savings equal to 25 times your *total annual expenses.* So, if you need $30K/year to live off of, once you have $750,000 (25 times $30K), you're considered financially independent. If your expenses are $50K/year, then you'll need $1.25M. This assumes that you withdraw 4% annually and earn at least a 5% return—*after taxes and inflation.* To get there, it takes real work but work that pays off big!

FIRE is based on mastering three main concepts: income, expenses and time. The difference between your income and expenses is the amount you could save. FIREballers save and invest most of this difference.

What can you do to widen that gap to be able to save more? Namely, earn more and spend less – and that can take on a lot of different forms. Then the amount of time it takes you to save/invest the difference is what ultimately determines how long it takes to accumulate your number (25 times expenses), and how soon you obtain the flexibility to retire early.

Those who have successfully conquered FIRE will tell you that the key is to figure out your "why." What is important enough that it would make you want to achieve FIRE?

If your curiosity is at all piqued, there are tons of blogs on the internet that will provide you a host of information, ranging from the technical (for the number geeks) to the inspirational.

Just type "FIRE movement" into your search engine and heat up your savings!

Ask URS

By Amy Crews, QKA

Q: What would retirees do differently if they could go back in time?

A: We talk with a lot of people about the importance of saving for retirement. Another way of looking at this subject is from the perspective of retirees who have first-hand experience! A survey by TIAA-CREF (Ready to Retire Survey Nov. 2014) showed that 52% of pre-retirees wished they had started saving for the future sooner.

When asked to reflect on their retirement, the advice given by retirees from a variety of sources include some common themes, such as:

1. Concentrate on things in your control

Retirees indicate that it is easy to feel overwhelmed when planning for retirement, so it is important to focus on things you can control in life, like saving. They stress the need to live below your means and save. More than half of retirees say they wish they'd started saving sooner.

Retirees also had advice regarding investing – you can't control the market, but you can control *how* you invest. Retirees advise investors to not chase returns, look for low-cost investments, stay patient, and think long-term.

2. Prepare for bumps in the road

Many things can cause a change in your plans for retirement including job loss, health issues, change in family earnings and relatives who need assistance. Their advice is to save more than you think you'll need as a safety cushion, and obtain adequate insurance. Also, be prepared for home repairs, as emergencies like a new roof or air conditioning unit can still arise after retirement. Be sure to have some savings set aside for the unexpected.

Another finding was that some retirees spend more money in their early retirement years than planned. Many of us think that we will spend less once we retire, but expenses like dinners out and vacations can add up to more than we planned for. They suggest keeping your budget in mind even during retirement.

3. Plan for the personal side

Many retirees experience a lack of identity after leaving their careers, so retirement can be a big personal adjustment. Their advice is to plan for this prior to retirement by finding interests that will continue to give your life purpose after retirement such as helping out a charity, exercising, learning new things and/or traveling.

Also, many retirees wish they had not taken Social Security benefits early at 62. Retirees are living longer - many into their 90s - and they realize that had they waited until Social Security full retirement age or later to start drawing Social Security, they would have ended up with a lot more in total lifetime benefits.

Below are a few quotes from actual Acropolis clients:

- "When I retired at age 55 (15 years ago), I thought I had enough saved but everything costs more now."
- "I regret not saving earlier and more."
- "I regret not marrying a trust fund baby."
- "I regret not retiring earlier."
- And my favorite…"HELP!"

In summary, many of these suggestions are things we know we should do, but don't always take the time to do. Don't wait to get started saving. Challenge yourself to start today!

Ullico Retirement Solutions was born from a *simple* idea:

"We believe that organized labor deserves a trusted partner, and labor should provide for the needs of labor."

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