Many Options, One Retirement:
Choosing the Savings Strategy That's Right for You

RETIREMENT SERVICES

Most people understand they need to save for retirement, and with the assortment of online tools, articles, and calculators, they can even get a reasonable idea of how much to save. But as benefits, laws, and options change, some may struggle with where to save.

Certainly there are employer-sponsored 401(k)s or 403(b)s and, for savers without access to either of those options, IRAs in all of their shapes and sizes. But what should one think about some of the other options? How do those plans or account types fit into an overall retirement strategy?

Retirement Options Beyond the 401(k)

HEALTH SAVINGS ACCOUNTS

Many employers have begun to offer health savings accounts, or HSAs, as a way to save for medical expenses. These plans only come in conjunction with high-deductible health insurance plans. They offer a way to benefit from lower premiums while also saving, tax deferred, for unanticipated medical expenses.

Unlike flexible spending accounts, which require participants to use or lose their savings in a given year, HSAs allow contributions to accumulate over multiple years. Because most experts anticipate that healthcare costs will be the major driver of future retirement expenses, many have begun to think of HSAs as a smart vehicle for retirement savings. In addition, because HSAs allow for tax-free contributions, and the money is also not taxed when withdrawn according to the rules, people have another reason to maximize their savings in these plans.

WHOLE LIFE INSURANCE POLICIES

Outside of traditional employer benefits, some people and experts consider life insurance a potential retirement savings strategy. Not all life insurance policies can work in this capacity, but whole life insurance allows buyers to pay premiums that can earn dividends and, in some cases, investment returns over time. In the event of the insured's death, his or her heirs would receive a benefit. If, however, the insured survives into retirement, he or she could begin to draw down on the cash value that has accumulated in the plan, and also on the earnings of those premium payments.

THE ALTERNATIVES

	HSAs	WHOLE LIFE INSURANCE
INTENT	Healthcare	Income protection for heirs
RETIREMENT VALUE	Helps pay largest anticipated retirement expense: healthcare. Can be used for other expenses, penalty free, though subject to ordinary income tax, after age 65.	After an accumulation period, cash value can be withdrawn, along with earnings.
BENEFITS	Triple tax protected: Contributions, withdrawals, and investment earnings, when used in accordance with the rules, are tax free.	Earnings tend to be consistent and predictable.
CONSIDERATIONS	Use restricted to healthcare costs until age 65. Limited contributions. Limited investing potential.	More expensive than life insurance policies without cash withdrawal options.

While these life insurance policies can be costly, their growth does tend to be more stable and predictable. Long-term investment returns, historically, have usually been better than those of cash or fixed income products, but not as strong as equity funds. In addition, some whole life insurance policies can be managed so that premiums and earnings may be withdrawn tax free, similarly to Roth IRAs. For these reasons, some consider whole life insurance as a way to create near-term protection for their loved ones while, at the same time, building a nest egg for use after retirement.

Consider Your Choices

PLAN TYPE AS OF MAY 2017	ACCESS	SAVINGS LIMITS	WITHDRAWALS	TAX TREATMENT
EMPLOYER SAVINGS BENEFITS *401(K) OR 403(B)*	Open to employees of organizations sponsoring the plan.	Under age 50: $18,000 Over age 50: $24,000	At age 59½ and older, or in the form of a loan that must be repaid.	Pretax contributions reduce income base in the years they are made. Withdrawals are taxed as normal income and penalties may apply to early withdrawals.
HEALTH SAVINGS ACCOUNT (HSA)	Open to employees of organizations sponsoring the plan.	Individual: $3,400 Family: $6,750 Those 55 or older may contribute an additional $1,000.	For qualified medical purposes until age 65, then for any purpose.	Contributions reduce income base in the years they are made. Withdrawals are not taxed if used for qualified medical expenses.
WHOLE LIFE INSURANCE POLICY	Available to anyone meeting the insurance company's (usually health- and lifestyle-related) requirements.	Determined by the insurer and based on the insured's health, lifestyle, and financial profile.	Upon death, in the form of a loan that must be repaid, or in cash after assets have sufficiently accumulated.	Contributions are made after tax. Withdrawals of premiums can be made tax free, but taxes must be paid on dividends or investment gains.
ROTH IRA	Available to those below certain income levels (less than $133,000, if single, or $196,000, if married filing jointly).	Under age 50: $5,500 Over age 50: $6,500 The amounts are less or not allowed at certain income levels.	At age 59½ and older.	Contributions are made after tax. Withdrawals of contributions and investment gains are generally tax free, but taxes and penalties may apply for early withdrawals.
TRADITIONAL IRA	Available to anyone, but tax deduction is limited based on income and access to workplace retirement plans.	Under age 50: $5,500 Over age 50: $6,500	At age 59½ and older.	Deductible contributions reduce income base in the years they are made. Withdrawals are taxed as normal income and penalties apply to early withdrawals.
TAXABLE INVESTMENT ACCOUNTS	Available to anyone able to meet investment minimums.	No limits unless stipulated by the investment manager.	At any time unless limited by investment product rules.	Couples with income less than $75,000 and singles with income less than $37,500 may not be subject to taxes on investment earnings and capital gains. Those with income above those levels pay ordinary income tax on their gains when they liquidate their investments.

Making Choices

As with anything that involves investing and long-term savings, deciding what accounts to use must reflect personal circumstances, and there is no single right answer for everyone. Depending on a person's current health, family history, and lifestyle, he or she may be more or less inclined to maximize savings for medical expenses. Depending on a person's charitable giving strategy or the size of her or his family, she or he may be more or less likely to buy life insurance. Income and age make a difference, as well.

That said, there is a general savings hierarchy that some experts suggest as a way to start thinking about a strategy. It is not the right approach for everyone, but it is an approach that helps people understand context:

1. **First, save to the level of any employer match in a 401(k) or 403(b).** Anything less can leave a substantial amount of the benefit on the table.
2. **Next, maximize contributions to the HSA.** Even the healthiest person will need medical attention eventually, especially in his or her retirement years. Maximizing contributions to these accounts not only prepares for those expenses, but also maximizes tax savings in both the near-term and the future.
3. **Go back to the 401(k) or 403(b) and save as much as possible, up to the maximum.** Retirement plans offer not only tax benefits, but they also often offer group buying power that can translate into lower-priced investments, which means more return on the dollar.
4. **Finally, supplement retirement savings with whole life insurance.** Employer-sponsored retirement plans and HSAs both offer death benefits for family members and heirs. Less expensive life insurance can help offer income protection until the HSA and 401(k) or 403(b) have been maximized, at which point the whole life policy offers an additional way to both save and generate low-risk income.

Again, no one strategy works for everyone, but this hierarchy suggests an approach to maximize savings dollars. Many things, especially age and income, could be a reason to alter this strategy. In addition, there may be nuances to consider, such as whether to save on a Roth or pretax basis.

While there are many alternatives to consider when developing a long-term retirement plan, taking full advantage of employer-sponsored benefits remains at the heart of most strategies. Investors must consider their personal and family histories, their current and future plans to care for loved ones, and their near- and long-term income needs. Financial advisors and tax professionals can make recommendations more tailored to individual needs, and your retirement services provider will have educational services and modeling tools with more details.

ON THE MARK:

WHAT'S HAPPENING IN THE ECONOMY AND MARKETPLACE

As Economic Stars Align, the Fed Raises Interest Rates

In March 2017, the Federal Reserve announced a 0.25% increase to its target range for the Federal Funds Rate. The markets had widely anticipated this move for years, and now, with near full employment, rising inflation, and rising growth expectations, analysts expect interest rate boosts at more regular intervals.

The Fed says it expects to make three interest rate increases in 2017. Setting this expectation gives it significant flexibility to react to incoming economic data without surprising markets too much. It could easily adjust course to offer only two rate hikes, if data comes in weaker than anticipated, or do four quarterly hikes if the economy is on track and the government is providing significant legislative stimulus (deregulation, tax reform, infrastructure, etc.)

Bonds In a Rising Interest Rate Environment

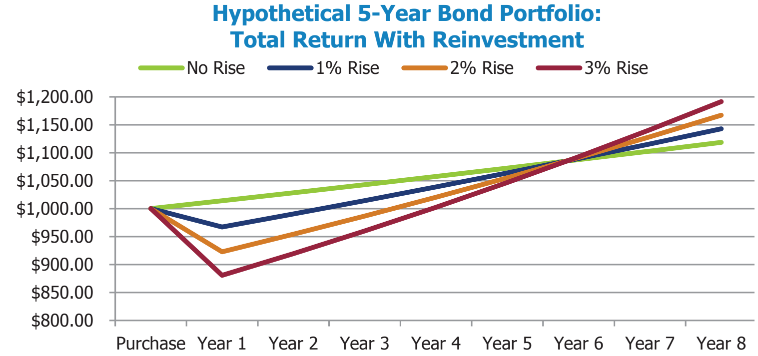
In the short term, the rising rate environment will be challenging for bonds. As interest rates go up, bond prices go down. Most areas of the bond market showed slight losses in the fourth quarter of 2016, and most expect similar results in more quarters over the next couple of years. The historically low interest rate environment puts bonds particularly at risk from interest rate increases since the current yield offers little cushion against price adjustment losses.

While a rise in rates is generally bad for bonds in the short term, not all fixed income products will react in the same manner. Duration measures a bond's interest rate sensitivity and is an investor's primary resource to evaluate how interest rate changes will impact his or her portfolio. The longer the duration, the more rate changes will impact a bond's price.

Investors wishing to avoid near-term losses should allocate to shorter-term bonds during this environment. In the long term, though, a rising rate environment is good for bonds. It increases their yields, providing more income for retirees and other investors seeking lower-risk investments.

Bonds will always serve a purpose in a balanced allocation due to their downside protection. The best plan of action is to "stick to the plan" and maintain a well-diversified portfolio with appropriate risk levels for investing objectives.

LONG-TERM REINVESTING AT A HIGHER RATE

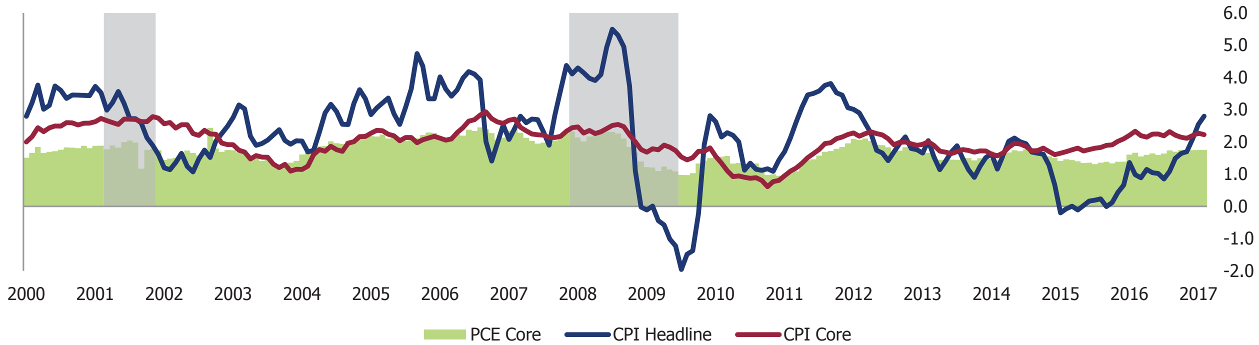


Source: Lockton

Generating Returns in an Inflationary Environment

After nearly eight years in a low and falling inflationary environment, analysts expect inflation to rise, given stronger economic data from a healthy US economy. US inflation is heavily impacted by commodity prices, wages, and expected government policies. To balance its dual mandates of full employment and stable inflation, rising inflation leads the Fed to raise interest rates. As rates move up, they reduce the present value of future cash flows and the return on traditional assets, like stocks and bonds, is generally lower. So as stocks and bonds experience lower returns, the question becomes, "What can investors do to protect their purchasing power against inflation?"

INFLATION RATES (%)



Shaded areas indicate US recessions.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, National Bureau of Economic Research, and Lockton

Rising inflation and interest rates is a sign of the economy advancing into a more mature stage of its expansion. Asset allocation is the most important tool to control portfolio performance over the long term, and a well-diversified portfolio is typically the best defense against market movements. Observing inflationary environments since 1978, there is evidence that commodities will outperform traditional asset classes in inflationary markets. It remains to be seen whether this economic cycle will produce material increases in inflation, but investments in inflation-sensitive assets would likely prove beneficial whenever a period of inflation does occur. This diversification benefit helps a portfolio perform in many different economic environments and can be particularly helpful for those in or near the spending phase of retirement.

Marketplace Snapshot

Topic	Status
Economic Growth	Picking Up
Employment	Full Employment
Inflation	Low but Rising
Interest Rates	Low but Rising
Markets	Near All-Time Highs

ANNUALIZED RETURNS: BROAD MARKET EQUITY INDICES

	Q1 2017	YTD	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	5.19%	5.19%	19.91%	10.61%	12.15%	8.10%
S&P 500	6.07%	6.07%	17.17%	10.37%	13.30%	7.51%
NASDAQ	9.82%	9.82%	21.39%	12.08%	13.84%	9.34%
MSCI EAFE	7.25%	7.25%	11.67%	0.50%	5.83%	1.05%
MSCI ACWI	6.91%	6.91%	15.04%	5.08%	8.37%	4.00%
MSCI Emerging Markets	11.45%	11.45%	17.22%	1.18%	0.81%	2.72%
MSCI US REIT	0.99%	0.99%	3.17%	10.05%	9.82%	4.71%
Bloomberg Commodity	-2.33%	-2.33%	8.71%	-13.91%	-9.54%	-6.22%

Source: Dow Jones, Standard & Poor's, NASDAQ, & MSCI. Data as of: 03/31/2017.

ANNUALIZED RETURNS: FIXED-INCOME INDICES

	Q1 2017	YTD	1-Year	3-Year	5-Year	10-Year
2-Year Treasury	0.26%	0.26%	0.08%	0.59%	0.53%	2.09%
5-Year Treasury	0.46%	0.46%	-1.96%	1.46%	1.07%	4.11%
10-Year Treasury	0.79%	0.79%	-3.96%	2.85%	2.01%	4.82%
BarCap US Aggregate	0.82%	0.82%	0.44%	2.68%	2.34%	4.27%
BarCap US Corp IG	1.22%	1.22%	3.31%	3.65%	3.96%	5.44%
BarCap US Corp HY	2.70%	2.70%	16.39%	4.56%	6.82%	7.46%
BarCap US TIPS	1.26%	1.26%	1.48%	2.03%	0.97%	4.24%
BarCap Global Aggregate	1.76%	1.76%	-1.90%	-0.39%	0.38%	3.34%

Source: Barclay's Capital. Data as of: 03/31/2017.

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