3RD QUARTER 2016 | ISSUE NO. 60

Retirement Matters

CBIZ Retirement Plan Services

Managing Your Retirement Plan Just Got Easier.

MARKET COMMENTARY

The third quarter of 2016 was relatively quiet in the markets. During the month of August, the S&P 500 did not move more than 1% in either direction. Emerging market equities continued to benefit from the global low interest rate environment and finished the quarter outperforming domestic equities and fixed income, as well as developed international equities. At the end of the quarter, market volatility picked up as speculations around the Federal Reserve raising interest rates surfaced.

The S&P 500 Index, a measure of U.S. large cap equities, returned 3.85% for the quarter and 7.84% since the beginning of the year. In the value and growth space, growth equities outperformed for the quarter, as bullish sentiment returned to the markets after two previous quarters of defensive positioning. Small cap growth led domestic equities for the third quarter returning 8.20% but year-to-date small cap value continues to be the best performing domestic equity asset class, returning 12.24%.

On the international front, developed markets in Europe continued to exhibit volatility. Returning 6.43% on the quarter, the MSCI EAFE Index turned positive for the year. Developed internationals saw a bounce back after the second quarter selloff that resulted from Great Britain voting to leave the European Union. As mentioned above, the MSCI EM Index, a measure of emerging market countries, outperformed the developed markets, returning 9.03% for the quarter.

Bonds, as measured by the Barclays U.S. Aggregate Index, experienced a slowdown in the third quarter returning a nominal 0.46%. The Federal Reserved announced in September that it would leave rates unchanged at 0.50%.

A CBIZ Representative can be reached at:
6050 Oak Tree Blvd., Suite 500 • Cleveland, OH 44131
877.323.3867

IN THIS UPDATE:

The chart below shows the major index and style category returns for the quarter, year-to-date, one-year, three-year, and five-year time periods ended September 30, 2016.

Saving for retirement is a life-long process, one that takes a lot of discipline and patience, but when done prudently can lead to a successful retirement. Participants are often overwhelmed by the longevity of the journey and do not know when or where to begin. And often, once participants have established a retirement account, life's ups and downs get in the way and retirement goals are overshadowed. To make the long journey more manageable, this quarter's newsletter breaks down the path to retirement into three segments: setting up a retirement account, 15 to 20 years until retirement, and at or near retirement.

PERFORMANCE

Name	3Q16	YTD	1 Yr	3 Yr	5 Yr
S&P 500 Index	3.85	7.84	15.43	11.16	16.37
Russell 2000 Index	9.05	11.46	15.47	6.71	15.82
MSCI EAFE Index	6.43	1.73	6.52	0.48	7.39
MSCI EM Index	9.03	16.02	16.78	-0.56	3.03
Barclays US Agg Bond Index	0.46	5.8	5.19	4.03	3.08
Morningstar Large Cap Value	3.69	7.84	13.09	7.71	14.01
Morningstar Large Cap Growth	5.59	3.41	10.43	9.23	14.98
Morningstar Small Cap Value	7.29	12.24	14.49	5.7	14.54
Morningstar Small Cap Growth	8.2	7.36	10.44	5.1	14.43

Source: Morningstar Direct

SETTING UP A RETIREMENT ACCOUNT

The first step to an enjoyable retirement is simply setting up a retirement account. Participants should ask their human resource contact about the appropriate steps to setting up a new account. Secondly, participants should become aware of the benefits of their retirement plan, such as, what is your company's match? Your employer may offer a match or another type of contribution that assists in reaching your retirement goals. An example of this is a 50% match up to 6% of your salary. In this example, for every dollar you contribute into the plan, the employer will contribute 50 cents up to 6% of your pay. At the beginning stages of saving for retirement, you should try to maximize the benefit offered through your employers match program; in this case it would be 6%.

Perhaps the most important step when establishing a retirement account is remembering that you are saving for the future and establishing a long-term mindset. Whether you are starting to save in your twenties or your fifties, the key is to invest consistently. The biggest benefit of saving early and often is the power of compounding over the long-term. The graph below shows the effect of starting to save early and consistently contributing to your account over an extended period of time.

As seen in the graph below, Chloe, who is represented by the blue line, had the largest ending portfolio value. Chloe invested $10,000 annually from age 25 to age 65. The graph assumes an annual return of 6.5% over the stated time period, and resulted in an ending portfolio value of $1,870,480. This scenario is a good representation of the effect of accumulation. Chloe saved $400,000 or 21% of her portfolio's ending value over the 40 years and experienced an investment return of 367.62%. The power of compounding is also seen when comparing Lyla (purple) to Chloe (blue). Lyla started to save $10,000 a year at age 35 instead of age 25 and this resulted in $950,588 less in savings compared to that of Chloe.

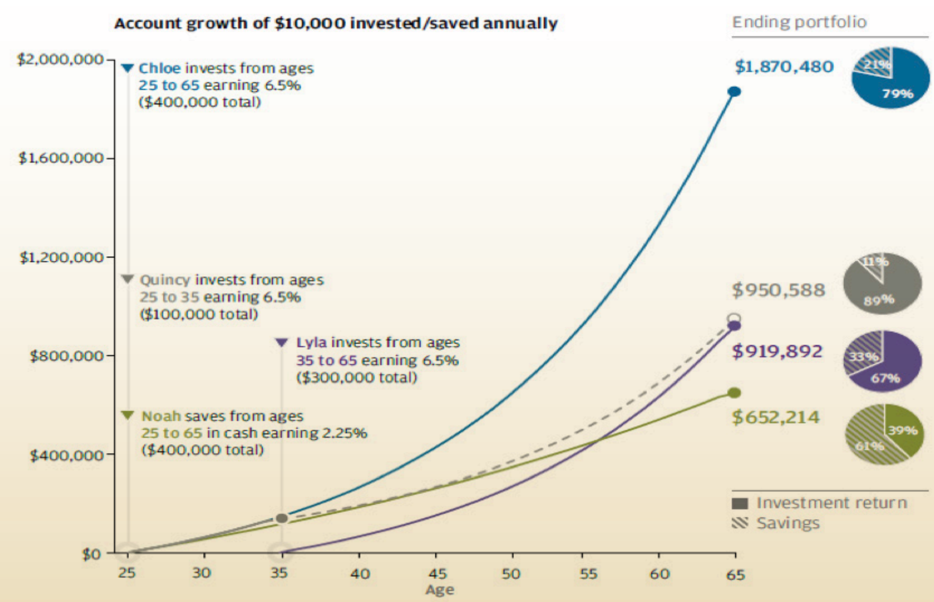
Keeping in mind that retirement accounts are long-term investment vehicles, it is also important to determine your risk tolerance. How much market volatility are you comfortable withstanding? Answering this question will help in leading you to an appropriate asset allocation. The more risk you are willing to take, the larger percentage you will have allocated to stocks, the more risk averse you are, the more you should allocate to fixed income.

15 to 20 years until retirement

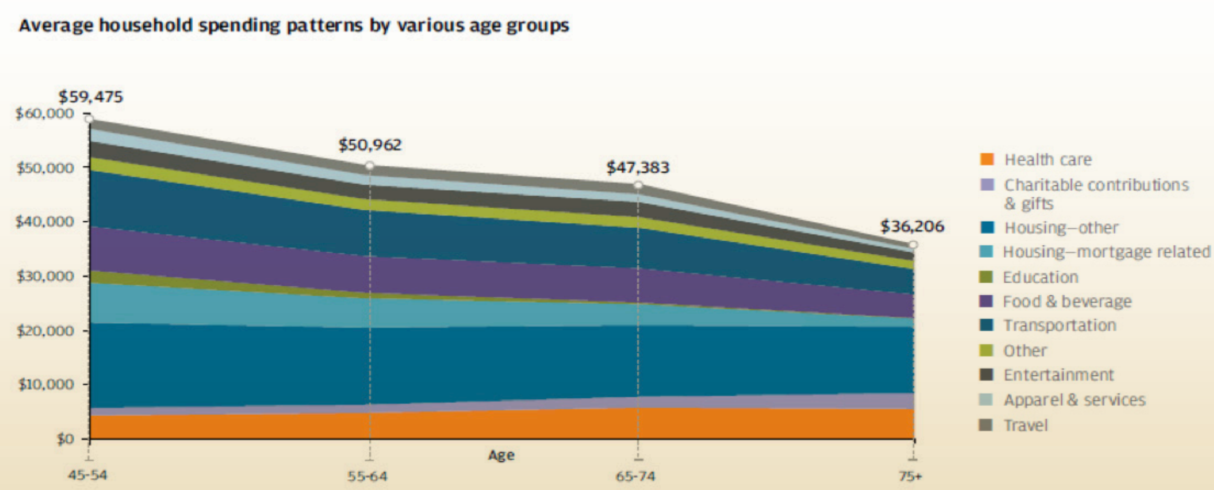
In order to retire at your desired age, planning for the future is imperative. When you are 15 to 20 years out from retirement, you should start asking the following questions:

- **What is my time horizon for retirement?**
- **What percentage of income am I going to need in retirement?**
- **Am I contributing enough to my retirement account?**

Continued on page 3



The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 6.5% annual return and cash assumes a 2.25% annual return. Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions. Compounding refers to the process of earning return on principal plus the return that was earned earlier.



Source: J.P. Morgan Asset Management. Estimates based on average consumer expenditure from the 2014 Consumer Expenditure Survey (BLS) for each age group excluding pension contributions. Average household size for age 45–54 is 2.8; age 55–64 is 2.2; age 65–74 is 1.9 and age 75+ is 1.6.

Continued from page 2

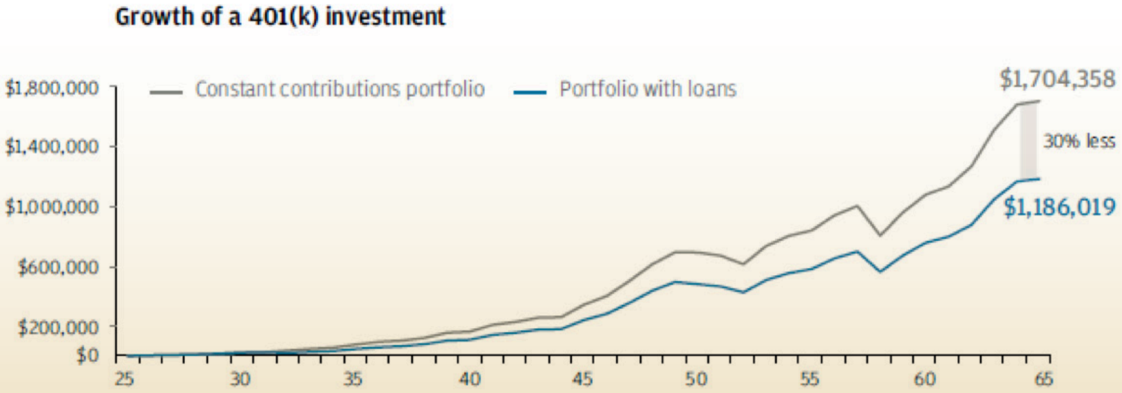
Deciding your time horizon until retirement is essential because this will help in determining how much risk you should be taking. As you approach retirement, you should lower your risk and reduce your exposure to stocks. In addition, while the industry standard says 80% of your pre-retirement income is standard, it also depends on personal factors such as retirement age, marital status, discretionary spending, education needs, and more. The chart below breaks down average spending patterns by various age groups.

The glide path above shows that household spending peaks around 45 years old. Thereafter, spending starts to decline in all of the categories except health care and charitable contributions while housing remains the largest expense. It is important to note that the numbers above represent an average, and you should plan for your retirement based on your spending wants and needs. Once you have established a desired retirement income, review how much you are currently contributing to ensure it is enough to reach your end goal.

As mentioned in the beginning of this newsletter, life's ups and downs often get in the way of reaching retirement goals. The chart below shows the effect of taking three loans throughout your life from your retirement account. The study assumes a starting salary of $30,000 increasing by 2.25% each year and a total (employee and employer) contribution rate of 9%. The three hypothetical $10,000 loans are taken at age 32 to buy a house, at age 50 for college tuition, and at age 62 for a pre-retirement withdrawal. As you can see below, even though the loans total only $30,000, the overall impact drastically decreased the potential investment growth by $518,339. This is due to the fact that the ten years following the loan distribution are used to repay the

loan rather than to make a typical contribution, missing out on the compounding effect discussed earlier. This sample serves as a reminder that a retirement account is for the long-term, and taking a loan from your account should only be used as a last resort.

Continued on page 4



Source: J.P. Morgan Asset Management. For illustrative purposes only. Hypothetical portfolio is assumed to be invested 60% in the S&P 500 and 40% in the Barclays Capital U.S. Aggregate Index from 1975 to 2015. Starting salary of $30,000 increasing by 2.25% each year.

Continued from page 3

At or near retirement

Did you know if you are 65 years old today there is a 74% chance that either you or your spouse will live to be 85 years old or older?[1] The average life expectancy in the United States rose between 1990 and 2010. According to the Social Security Administration, the average life expectancy for a man was 80.1 and a woman was 84.1 in 1990. This number increased in 2010 to 82.6 for males and 85.2 for females. Industry experts are now telling participants to plan on living as long as 30 years into retirement.

Due to increased life expectancy, it is even more prudent for participants to make sure that they are well on their way to a successful retirement. The chart below can act as a standard check point showing how much you should have invested today based on your age and income. If you find the intersection of your current age and income, multiply your income by the number in the grid, this will give you an estimate as to how much you should have invested today. For example, if you are 60 years old and make $50,000, multiply $50,000 by 4.3, this suggests that you should have $215,000 saved. Let the graph below serve as a guideline on your road to retirement.

Continued on page 5

[1] *Social Security Administration, Period Life Table, 2011 (published in 2015), J.P. Morgan Management*

	$30,000	$50,000	$75,000	$100,000	$150,000	$200,000	$250,000	$300,000
Current Age	Checkpoint (x current household income)							
30	-	0.4	1.1	1.3	1.8	2.1	2.3	2.4
35	0.3	0.8	1.6	1.9	2.4	2.8	3.1	3.2
40	0.6	1.2	2.2	2.6	3.2	3.7	4.1	4.2
45	1.0	1.8	3.0	3.4	4.2	4.8	5.3	5.5
50	1.5	2.5	3.9	4.5	5.4	6.2	6.7	7.0
55	2.1	3.3	5.1	5.7	6.9	7.9	8.5	8.8
60	2.9	4.3	6.5	7.3	8.8	9.9	10.7	11.1
65	3.9	5.6	8.4	9.4	11.3	12.7	13.7	14.2

This chart is for illustrative purposes only and must not be relied upon to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital market assumptions (10-15 years). Household income replacement rates are derived from an inflation-adjusted analysis of: Consumer Expenditure Survey (BLS) data (2011-2014); Social Security benefits using modified scaled earnings in 2016 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums; and 2016 OASDI and FICA taxes. Households earning $30,000 will need to replace at least 16% of their pre- retirement income; $50,000 23%; $75,000 34%; $100,000 38%; $150,000 45%; $200,000 51%; $250,000 55%; $300,000 57%. The income replacement needs may be lower for households in which both spouses are working and the second spouse's individual benefits are greater than their spousal benefit. Single household income replacement needs may vary as spending is typically less than a two-spouse household; however, the loss of the Social Security spousal benefit may offset the spending reduction. Consult with a Financial Advisor for a more personalized assessment. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

Continued from page 4

Once you have reached retirement, it is important to take into account your whole wealth picture. If you have retirement accounts from prior employers or rollover IRAs, these accounts should be invested in the same asset allocation as your current employer-sponsored retirement plan. If you are having trouble monitoring multiple accounts, consider a rollover to your current plan. Also, remember to update your beneficiary whenever you have important changes in your life. A good rule of thumb is to review your beneficiaries annually.

As described in this quarter's newsletter, the road to retirement is long, but it can be made more manageable if broken down into different segments. At the beginning of the process, the focus should be on wealth accumulation by starting to invest early and often. When you are 15 to 20 years from retirement, participants should start to ask the question, how much money am I going to need in retirement? Then, you should make sure that your current contribution rate will get you there. Lastly, once in retirement, continue to monitor your asset allocation and ensure your wealth is invested correctly based on individual risk tolerances.