MARCUM
FINANCIAL SERVICES
Corporate Benefits Group

For Your Benefit

MARCH 2017

Balancing a Retirement Portfolio with Asset Allocation

The combination of investments you choose is as important as the individual investments themselves. In fact, many experts argue that it's even more important, since the mix of various types of investments accounts for most of the ups and downs of a portfolio's return. Each type of investment, or asset class, has strengths and weaknesses that let it play a specific role in your overall investing strategy. Some investments, such as stocks, may be chosen for their growth potential. Other asset classes, such as bonds, may provide regular income. Still others may offer relative stability or serve as a place to park money temporarily. And some investments may try to fill more than one role.

Balancing how much of each asset class you should include in your retirement portfolio is one of your most important tasks as an investor. That balance between growth, income, and safety/ stability is called your asset allocation. It can help you manage the level and type of risks you face.

Balancing risk and return

Ideally, you should strive for an overall combination of investments that take the least amount of risk in trying to achieve a targeted rate of return. This often means balancing more conservative investments against others that are designed to provide a higher return but that also involve more risk.

For example, let's say you want to get a 7.5% return on your money. You've read that in the past, stock market returns have averaged about 10% annually, and bonds roughly 5%. One way to try to achieve your desired 7.5% return would be by choosing a 50-50 mix of stock and bond investments. It might not work out that way, of course. This is only a hypothetical illustration, not a real portfolio, and there's no guarantee that either stocks or bonds will perform as they have in the past. But asset allocation gives you a place to start.

Someone who is close to retirement and about to start relying on his or her savings for living expenses will probably need a very different asset allocation than a young, well-to-do working professional whose priority is saving for a retirement that's 30 years away. The level of risk you are able to take is known as your "risk tolerance," and it's affected by factors such as how soon you'll be using your savings as well as your emotional and financial ability to handle setbacks.

Don't forget about the impact of inflation on your retirement savings. As time goes by, your money will probably buy less and less unless your portfolio at least keeps pace with the inflation rate. Even if you think of yourself as a conservative investor, your asset allocation should take long-term inflation into account.

Many ways to diversify

In addition to thinking about how to divide your assets among stocks, bonds, and cash--the three basic asset classes-consider how your assets are allocated within an asset class. For example, for the stock portion of your portfolio, you could allocate a certain amount to a mutual fund that invests in large-cap stocks, and a different percentage to one that focuses on stocks of smaller companies. Or you might allocate based on geography, putting some money in U.S. stocks and some in those of companies overseas. Bond funds will vary based on the underlying bonds they hold, and are subject to the same inflation, interest-rate, and credit risks associated with them. Those differences will affect a fund's yield and volatility. Cash alternatives such as a money market fund can be used to park money until you decide how to invest it. Once you've covered the basic three asset classes, there may be others that can be used to diversify further.

There are various approaches to choosing an asset allocation that makes sense for you. The most aggressively you might be able to invest for them. That means your asset allocation might have a greater percentage of stocks, which are considered riskier than bonds or cash but which also might offer greater potential long-term return.

Or you might be in the opposite situation. If you worry that you might need to tap your investments in an emergency, you'll need to balance that fact against your longer-term goals. In addition to establishing an emergency fund, which would lower the odds of your needing to tap your retirement account prematurely, you may need to invest more conservatively than you might otherwise want to.

Some investors believe in shifting their assets among asset classes based on which types of investments they expect will do well or poorly in the near term. However, this approach, called "market timing," is extremely difficult even for professional investors. Less experienced investors often tend to put money into an asset class that has performed well recently, only to watch that strong performance disappear shortly after they've invested.

Some people try to match market returns with an overall "core" strategy for most of their portfolio. They then put a smaller portion into very targeted investments that may behave very differently from those in the core and that provide greater overall diversification. These often are asset classes that an investor thinks could benefit from more active management.

Your asset allocation should balance your financial goals with your emotional needs. If the way your money is invested keeps you awake worrying at night, you may need to rethink your investing goals and whether the strategy you're pursuing is worth the anxiety.

Check your asset allocation yearly

Even if you've chosen an appropriate asset allocation, market forces may quickly begin to alter it without any action on your part. If stock prices go up, you may eventually find yourself with a greater percentage of stocks in your portfolio than you want. If stock prices go down, you might worry that you won't be able to retire when you hope to-or at all.

Let's say you initially decided on an 80% to 20% mix of stock investments to bond investments. If stocks perform well, you might find after several years that your portfolio is now divided 88% to 12% (conversely, if stocks haven't done well, you might have a 70-30 ratio of stocks to bonds in this hypothetical example). You should review your portfolio periodically to see if you need to return to your original allocation.

Also, your asset allocation should take into ccount any changes in your life and circumstances-for example, if you get married, divorce, have children, change jobs, or get close to retirement. Even if your asset allocation was right for you when you first chose it, it may not be right for you now. It should change as your circumstances do. A piece of clothing you wore 10 years ago may not fit now; you just might need to update your asset allocation, too.

That's why it's important to review your portfolio periodically to make sure your asset allocation is still appropriate for your current situation and financial goals. Doing a checkup at least once a year--for example, at the end of the year--can help keep your portfolio on track.

If you need to bring your asset allocation back to the original percentages you set for each type of investment, you may need to do something that can feel counterintuitive: sell some of what's working well and use that money to buy investments in other asset classes that ow represent less of your portfolio than they should. Typically, you'd buy enough to bring your percentages back into their original amounts.

Let's go back to the example above, in which stocks now represent 88% rather than the 80% you originally intended. To rebalance, you would sell some of the stock and use the proceeds to buy enough of other asset classes to bring the stock allocation back to 80%. The same would be true if stocks dropped; to rebalance, you would invest in stocks until they once again reached the proper percentage. (However, if rebalancing were done in a taxable account, selling investments could result in a tax liability.)

If you need to rebalance your portfolio but don't want to sell assets in order to do so, you could take a more gradual approach to shifting your asset allocation. Simply direct new contributions to your retirement plan account into asset classes that have been outpaced by others, or that are new to your portfolio. That can help change your asset allocation over time and minimize the risk of making a major change at the wrong time. But if you don't review your holdings periodically, you won't know whether a change is needed.

Top 10 Medicare Mistakes

Common errors can be costly, but here's how to avoid the

by Patricia Barry

En español I Medicare is uncharted territory for most of the 10,000 people who come into the program each day. It's not a minefield, exactly, but lurking in the undergrowth are pitfalls and traps that can be costly unless people take care to dodge them.

"Avoiding the most common mistakes in Medicare can make the difference between having good financial and health security — or not," says Joe Baker, president of the Medicare Rights Center, a national consumer group. The center hears constantly from older Americans who've been forced to go without coverage for many months or to pay higher premiums for the rest of their lives — just because they didn't know the rules about enrollment.

"We are campaigning to get the federal government to send a letter to everyone in their 64th year saying here's what you need to know and who to call to get a question answered," Baker adds. But right now, absent that information, here are the top 10 Medicare mistakes to beware of.

1. Assuming you don't qualify if you haven't worked long enough

Earning 40 credits by paying payroll taxes at work — about 10 years' work — ensures that you won't have to pay premiums for Part A services (mainly hospital insurance) when you join Medicare. But you don't need any work credits to qualify for Part B (doctors' services, outpatient care, medical equipment) and Part D (prescription drugs), provided that you're 65 or older, and a U.S. citizen or a legal resident who's lived in the United States for at least five years. You may also qualify for Part A benefits on your spouse's work record, or you can pay premiums for them. If you wait to sign up until you've earned 40 credits, you may end up paying permanent late penalties.

2. Failing to enroll in Part B when you should

Signing up at the time that's right for you is critical. If you don't, you risk late penalties, in the form of surcharges added to your premiums for all future years, and delays of several months before coverage kicks in. If you have health coverage beyond age 65 from an employer for which you (or your spouse) actively work, and the employer has 20 or more workers, you can delay Part B enrollment without penalty until the job ends. Otherwise, you need to sign up during your seven-month initial enrollment period — which includes the month you turn 65, three months before and three months after.

3. Believing you don't need Medicare Part B if you have retiree or COBRA health coverage

Part B is optional, so you are not obliged to enroll. But you should carefully check with your retiree plan to see how it fits in with Medicare. In many such plans, Medicare automatically becomes primary coverage and the plan pays only for a few services that Medicare doesn't cover. In that case, if you fail to sign up for Part B when you're required to, you'll essentially have no coverage.

COBRA allows you to continue on your present mployer's health care plan after your job ends, usually for about 18 months. But as soon as you're no longer actively working for this employer, COBRA coverage doesn't allow you to delay Part B enrollment without risking late penalties. In this situation, you need to sign up for Part B before the end of your initial enrollment period at age 65, or (if your job ended after that period) no later than eight months after you stopped work.

4. Thinking you must reach full retirement age before signing up

Full retirement age for most people is now 66, which will gradually increase to 67 for those who were born after 1959. But if you want to avoid late penalties, you need to sign up for Medicare at age 65, unless you have health coverage from your own job or from your spouse's current place of employment. You don't need to wait until you retire and are collecting Social Security benefits to enroll in Medicare.

5. Not signing up for Part D because you don't take any prescription drugs

Why pay Part D premiums if you need no medicines? Because you don't have a crystal ball and can't be sure that you won't get some unforeseen illness or suffer an injury that takes expensive drugs to treat. (Some cancer drugs cost thousands of dollars a month.) Part D, like all insurance, provides coverage when you need it, but doesn't allow you to wait to sign up until the need becomes urgent. And when you do finally enroll, you'd risk late penalties permanently added to your Part D premiums — unless you have "creditable" drug coverage from elsewhere (such as retiree benefits) that Medicare considers at least as good as Part D. One solution (if you don't have such drug coverage from elsewhere): Pick the plan with the lowest premium, so you get coverage at the least cost.

6. Misunderstanding enrollment periods

You may have read about "open enrollment" and gotten the idea that this is the only time you can sign up for Medicare. Not true! In Medicare, open enrollment (Oct. 15 to Dec. 7 each year) is only for people who are already in the program and want to change their coverage for the following year.

If you're coming into Medicare for the first time, you get your own enrollment period — either around the time that you turn 65, or throughout the time you have your own health coverage from your employment or your spouse's employment, and for up to eight months after it ends.

If you miss your personal deadlines because you're waiting for open enrollment, you risk delayed coverage and permanent late penalties. (Different enrollment periods apply in some other situations — for people who qualify for Medicare due to disability, for example, or for legal immigrants.)

7. Picking a Part D drug plan on the basis of its premium or its name or because your best friend chose it

The best way to pick a plan is according to the specific drugs you take, because Part D plans do not cover all drugs and they charge widely differing copays, even for the same drug.

You can compare coverage and costs for your own drugs among different plans by using the plan finder program on medicare.gov or by calling Medicare at 800-633-4227.

8. Being too late to buy medigap with full protections

Medigap supplemental insurance is extra coverage that you can choose to buy privately to cover some or most of your out-of-pocket expenses in traditional Medicare, such as deductibles and copays. But to get the full federal protections, you need to buy it at the right time and you must be 65 or older. If you buy a medigap policy within six months of enrolling in Part B or in a few other specific circumstances, medigap insurers can't deny you coverage or charge higher premiums based on your current health or pre-existing medical conditions.

Outside of those time frames, they can do both. (People under 65 don't get this federal umbrella, but some states provide similar protections.)

The six-month window that you are given after enrolling in Part B is a one-time opportunity. So if you sign up for Part B when you're 65, but continue to have employer insurance from your own or your spouse's current employment beyond the six-month deadline, you will fail to qualify for federal protections if you want to buy medigap when you (or your spouse) retire. However, if you joined Part B under age 65 because of disabilities, you will have another opportunity for federal protections if you buy a medigap policy during the six months after your 65th birthday.)

9. Failing to read your Annual Notice of Change

This important document comes in the mail each September if you're enrolled in a Medicare Advantage plan (HMO or PPO) or a Part D prescription drug plan. It specifies what changes the plan will make in its costs and coverage for the following year. You can then compare it with other plans during open enrollment (Oct.15 to Dec. 7) and switch if you want. Failing to read the notice can result in nasty shocks on Jan. 1 if you stay with a plan that hikes its charges.

10. Not realizing that you may qualify for help to lower your costs

Medicare comes with many expenses — premiums, deductibles, copays — that many people find hard to pay. So if your income is limited, be sure to check out two programs that can reduce those costs if you qualify. Under a Medicare Savings Program, your state pays the Part B premiums and maybe other expenses. Under the federal Extra Help program, you get low-cost Part D prescription drug coverage. To see if you qualify for either program, contact your state health insurance assistance program (SHIP), which provides free counseling on Medicare issues. To find its toll-free phone number, go to shiptacenter.org and select your state.

Content provided by Medicare Article via aarp.org