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Pension Plans vs. 401(k) Plans

A pension plan has become exceedingly rare, or at least that's the conventional wisdom. But that doesn't mean pensions are not still an important
retirement planning tool for many people. While it's true that few private sector employers offer pension benefits for new hires, they are still common for people who work in the public sector. Many older people also have some pension benefits, perhaps from a previous employer. So, although pensions aren't available to everyone, they are still an important part of the retirement planning mix for millions of Americans.

Whether you have a pension, a 401(k) plan, or a combination of the two, you may be wondering which is better. The answer is it depends.

The Difference Between Pensions and 401(k) Plans

What separates a pension plan from a 401(k) plan? A pension is a defined benefit retirement plan. Your employer contributes money throughout your working years in a pot with all other employees' money. The money is then invested on behalf of you and your co-
workers. When you retire, you receive a predetermined monthly benefit based on your length of service, salary, and age. Your benefit is guaranteed, but you don't have any control over how the money is invested.

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Pension Plans

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With a defined contribution plan, like a 401(k) plan, you (and your employer if they offer matching contributions) set aside money in a special account. You can then invest that money in options available in the plan. Unlike a pension, the amount you receive when you retire depends on the amount you save and the investment returns you receive.

Pros and Cons: Pensions

At first glance, pensions seem superior to defined contribution plans. After all, you get a guaranteed benefit that lasts for the rest of your life after you stop working. A pension eliminates the risk of outliving your money or losing all your savings because of a market crash or an investing mistake. Overall, pensions also have slightly better returns over time than 401(k) plans.

But pensions have their downsides too. One of the biggest is that you can't control the investments. That means that if you're a savvy or aggressive investor, you could be missing out on possible gains. Another drawback? If you leave your employer before a certain time (called your vesting period), you lose access to all or a portion of your benefit. Finally, if your employer runs into financial distress or goes out of business, your benefit may be far less than you anticipated.

Pros and Cons: 401(k) Plans

Employers love 401(k) plans since they take the responsibility for managing employees' retirement off of the employer and put it onto the workers. Many employees like 401(k) plans too, since they can control how much they save for retirement and how it is invested. And the money you contribute is yours — you won't lose it if you change jobs (although you may lose matching contributions, depending on how long you've worked for your employer) or face the possibility of reduced benefits if your employer goes bankrupt. Finally, you can pass on any money left in your 401(k) plan to your heirs. That's not the case with a pension, where the benefits end after the pensioner or the pensioner's spouse dies.

But 401(k) plans have their disadvantages as well. First, you need to be motivated enough to set aside money from your paycheck — money you could be spending today — for retirement. Many people struggle with this, either putting off saving or not saving enough. Another problem? Many people don't take enough risk with their retirement savings. If you stick with cash or low-interest bonds, your returns likely won't be high enough to generate the income you need in retirement.

Defined benefit and defined contribution plans each have their pros and cons. Whatever type of retirement plan you have access to, it's essential to understand how it works and what your responsibilities and options are. Please call if you'd like to discuss this in more detail. ❍❍❍

When Should You Sell?

Most information about stock investing seems to discuss buying, but to actually profit from a stock investment, it must be sold. For many investors, selling a stock is the most difficult decision.

The reason selling is difficult for some investors is the fear of missing out on future profits. A good selling decision may leave some profit on the table, but it should be determined by a rational analysis of valuation and price. The most successful investors do not focus on market timing by trying to sell at the highest price; instead, they focus on buying at one price and selling at a higher price.

If you have a difficult time with selling, you should consider using a limit order. This type of order will automatically sell the stock when it reaches your target selling price.

You should decide when to sell a stock at the time of purchase. Following are examples when you should consider selling based on your personal financial situation, as well as warning signs with the companies you are invested in:

✔ If you are losing sleep over a particular investment, it may be worth reducing your emotional distress to sell even at a small gain or loss.

✔ If you need money in the next three years to purchase a home or send a child to college, you should pull the money out while you know you have it.

✔ To help reduce tax payments, you may want to look for investment losses to offset other gains.

✔ If your portfolio is shifting from your original asset allocation, you will want to rebalance it to get back on track.

✔ Watch your stocks for a high price/earnings (P/E) ratio, which compares the company's recent earning to its stock price. If the P/E ratio is high, it can be an indicator that the stock is overpriced.

✔ Keep an eye on the company's competitive advantage. If others have come up with a new product or technology, they can erode their market share.

✔ If the company makes a drastic change in direction or management, it may indicate a problem with its business model. Research the changes and follow your instincts about the company's future.

✔ If a company's sales are falling, it may be signaling a problem. While all companies will go through slumps, if other competitors are experiencing growth during the same time period, it may be time to sell.

✔ When there is a trend of shrinking profits, it means the company's expenses are rising faster than its revenues, and it's having a hard time keeping profits up.

✔ If a company cuts its dividend payment, it may be a signal that it is expecting lower earnings and less growth.

Please call if you would like to discuss this topic in more detail. ❍❍❍

How to Improve Your Credit Rating

Credit scores are important because they determine your ability to get a loan. Credit scores also impact the interest rate and fees you will pay on that loan. Additionally, it can affect whether a landlord will rent to you, an employer will hire you, an insurance company will cover you, and utility companies will turn on services. While you need credit to get credit, having healthy credit is a balancing act.

What Is a Good Credit Score?

While creditors use different credit scoring models, the following provides a good example of score ranges:

750 and above	Excellent
700–749	Good
650–699	Fair
550–649	Poor
550 and below	Bad

The scoring models use five key factors in determining your credit score, including:

✔ **Payment history** determines how much of a risk you are to creditors in your ability to make timely payments.

✔ **Amount of debt** shows how much credit you have available and how much you are using. If you are holding a lot of debt, creditors worry about your ability to take on more.

✔ **Age of accounts** provides creditors with a good understanding of how you manage debt.

✔ **Account mix** shows lenders how you handle different types of credit.

✔ **History of credit applications** shows how often you are applying for credit and if you are overextending yourself.

If your credit score falls into the fair, poor, or bad range, it's time to work on improving that score.

Look at Your Credit Report

The first step to improve your credit score is to review your credit reports from all three of the major credit bureaus: Experian, Equifax, and TransUnion. Since your credit score is based on the information in your credit reports, you need to make sure they are accurate. Here is a list of things to look for:

✔ Is your personal information accurate, including your full name, address, Social Security number, and birthdate?

✔ Are all of your credit accounts on the report?

✔ Are there late or missed payments that are inaccurate?

✔ Are there accounts or credit applications you don't recognize?

✔ Are there items from more than a decade ago that are still on your report?

If you find inaccuracies on any of your reports, contact the bureau to find out their process for disputes and resolution. If your credit reports are accurate and your score is suffering, the following steps can help bring your score into the healthy range:

Pay on Time, Every Time

This is one of the most important factors that impacts your score. If you are late or missing payments, you need to set up a plan to make sure your payments are made on time. You may want to set up payment alerts so that you remember to make the payments, or even easier, you can have payments automatically deducted from your checking account.

Ask for Forgiveness

If you are late with a payment, call your credit card issuer or lender to see if they will forgive the late payment. If you have a consistent track record of on-time payments, they will most likely work with you.

Consider Your Credit Mix

If you only have one type of credit, it will impact your score. If you've never had a credit card, it may be time to get one. Just make sure you pay your balance off on a monthly basis or make on-time payments. If your poor credit score is preventing you from getting a credit card, see if you can get a secured credit card from your financial institution.

Not Too Many Cards

Don't go overboard, because the more credit you apply for in a short period of time, the greater damage it will do to your credit report. When you apply for credit, it is considered a hard inquiry, which will impact your score regardless if you get approved or not. So if your score is in between tiers, too much credit can put you in a lower tier.

Watch How Much You Use

Your score will suffer if every month your credit card balances are more than 30% of your limit. Even if you pay off your balance each month, a higher utilization rate will negatively impact you. If you know your balance is going to be above 30% in a month, prepay some of the balance so you are in the safe zone.

Please call to discuss this in more detail. ❍❍❍

Easing into Retirement

The sun is shining and a warm breeze blows in off the water. You gaze out over the ocean…or lake…or pond…and settle back into your hammock without a care in the world.

That's the retirement dream, right? And for some of us, it may come true — but not in the instantaneous, snap-of-the-fingers way you may be envisioning. And you just might spend a little less time in the hammock and more time exploring new interests, or even…get ready for it…working.

There are many reasons why someone would choose to ease into retirement. For some, it is a question of financial insecurity. For others, they may not feel ready to leave their job yet. Many retirees feel that they are missing out on the social part of their former working life or they want to continue to feel the thrill of problem-solving and using their expertise in a productive way. Whatever reason makes cautious retirees decide to only just dip their toes into retirement, continuing to work is generally beneficial for their bank account and their own well being.

When you are retired, but not ready for an exclusively hammock-dwelling lifestyle, there are a few factors to consider before working again:

✔ Is it financially worthwhile to resume working? Consider your potential income after taxes and any additional expenses that returning to work could incur.

✔ How will any additional income affect your Social Security benefits? If you are full retirement age or older, you do not have to worry about this, because any earnings will not affect your benefits. However, those between the ages of 62 and full retirement lose $1 of benefits for every $2 of earnings over $18,960 in 2021.

While those factors could certainly be detrimental to the part-time retiree, there are others that are uniquely beneficial:

✔ If you are close to age 72 and going back to work, you may not have to take minimum distributions from your 401(k) or employer plan.

✔ If you want to start a business as a retiree, you have the benefit of time and experience. Just be careful to not use your retirement savings to fund the business. Your expertise in the field should attract other sources to fund your venture. ❍❍❍

Dealing with a Spouse's Credit Issues

Some tips to consider when one spouse has a poor credit history include:

✔ **Don't apply for joint credit.** If your spouse's credit history is very bad, it may pay to leave him/her off the credit application.

✔ **Ask a parent or relative to co-sign a major loan, such as a mortgage.** Before asking, keep in mind that you are asking that person to take responsibility for the entire loan. If you default, the lender can come after your co-signer.

✔ **Instead of applying for joint credit cards, list your spouse as an authorized user of your cards.** While an authorized user can charge on your credit card, you are responsible for paying the bills. If the account is paid promptly, it will be reported on both credit histories, helping to improve your spouse's credit history.

✔ **Use other strategies to improve your spouse's credit history.** Ensure that your spouse makes all payments on a timely basis. Try to pay down as many of his/her credit balances as possible. If your spouse has difficulty obtaining credit, have him/her apply for a secured credit card. ❍❍❍

Financial Thoughts

Trading in odd-lot increments (counts other than a multiple of 100 shares) has increased in recent years. In 2019, such trades accounted for nearly two-thirds of the market in trades. The larger amount of odd-lot trading correlates to increases in nominal stock prices, lower commissions, and more algorithmic trading. Online trading platforms and lower commissions have made it easier and cheaper for investors to trade in odd lots. For institutional and professional investors, algorithm and high-frequency trading have increased the practice of splitting orders into smaller number of shares (Source: *AAII Journal*, October 2020).

On average, adults who receive an inheritance will save half of it. But 20% of baby boomers who receive an inheritance of $100,000 or more will spend the entire gift (Source: *Journal of Family and Economic Issues*, 2020).

Trading ideas from analysts have a three times greater impact on stock prices during the day of the announcement than either target price or earnings forecast revisions. Moreover, the impact on stock's price increases over the following three-month period without exhibiting signs of a reversal (Source: National Bureau of Economic Research, 2019). ❍❍❍