Q: Should I be worried about a Federal Reserve interest rate hike?

A: After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they’ve deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren’t all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolio in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CD’s are likely to do better at providing income than they have in recent years.

Also, bonds don’t respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under – or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust at a bond portfolio to take advantage of rising interest rates. However, don’t forget that a bond’s total return is a combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though post-performance is no guarantee of future results, that’s what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars. Remember that bonds are subject not only to interest rate risk but also to default risk, market risk, and credit risk, a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investment strategy will be successful.

### POINTS TO CONSIDER

**Setting the Stage**

The bottom line: Setting a goal is a very important first step in putting together your retirement savings strategy, but don’t let the number scare you. As long as you have an estimate in mind, break it down to a monthly need, review it regularly, and increase your investments whenever possible; you can take heart knowing that you’re doing your best to prepare for whatever the future may bring.

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### Retirement Goals are Based on Assumptions

**Retirement goals are based on assumptions.**

- **Whether you use a simple online calculator or run a detailed analysis, your retirement savings goal is based on certain assumptions that will, in all likelihood, change.**
- **Inflation, rates of return, life expectancies, salary adjustments, retirement expenses, Social Security benefits— all of these factors are estimates.**

That’s why it’s so important to review your retirement savings goal and its underlying assumptions regularly—at least once per year and when life events occur. This will help ensure that your goal continues to reflect your changing life circumstances as well as market and economic conditions.

**Break it down**

Instead of viewing your goal as one BIG NUMBER, try to break it down into an anticipated monthly income need. That way you can view this monthly need alongside your estimated monthly Social Security benefit, income from your retirement savings, and any pension or other income you expect. This can help the planning process seem less daunting, more realistic, and most important, more manageable. It can be far less overwhelming to brainstorm ways to close a gap of, say, a few hundred dollars a month than a few thousand dollars over the duration of your retirement.

**Make your future self a priority, whenever possible.**

While every stage of life brings financial challenges, each stage also brings opportunities. Whenever possible – for example, when you pay off a credit card or school loan, receive a tax refund, get a raise or promotion, celebrate your child’s college graduation (and the end of tuition payments), or receive an unexpected windfall — put some of that extra money toward retirement.

**Retirement may be different than you imagine.**

When people dream about retirement, they often picture images like exotic travel, endless rounds of golf, and fancy restaurants. Yet a recent study found that the older people get, the more they derive happiness from ordinary, everyday experiences such as socializing with friends, reading a good book, taking a scenic drive, or playing board games with grandchildren.

(Source: “Happiness from Ordinary and Extraordinary Experiences,” Journal of Consumer Research, June 2014)

While your dream may include days filled with extravagant leisure activities, your retirement reality may turn out much different — and that actually may be a matter of choice.

(continued on back)
Financial Terms Everyone Should Know

1. **Time Value of Money**
   The time value of money is the concept that money on hand today is worth more than the same amount of money in the future, because the money you have today could be invested to earn interest and increase in value.

2. **Inflation**
   Inflation reflects any overall upward movement in the price of consumer goods and services and is usually associated with the loss of purchasing power over time.

3. **Volatility**
   Volatility is a measure of the rate at which the price of a security moves up and down. If the price of a security historically changes rapidly over a short period of time, it is volatile. Conversely, if the price rarely changes, its volatility is low.

4. **Asset Allocation**
   Asset allocation means spreading investments over a variety of asset categories, such as equities, cash, bonds, etc. Why is it important? How you allocate your assets depends on a number of factors, including your risk tolerance and your desired return. Diversifying your investments among a variety of asset classes can help you manage volatility and investment risk.

5. **Net Worth**
   Net worth is what your total holdings are worth after subtracting all of your financial obligations.

6. **Five C’s of Credit**
   These are character, capacity, capital, collateral, and conditions. Why is it important? They’re the primary elements lenders evaluate to determine whether to make you a loan.

7. **Sustainable Withdrawal Rate**
   Sustainable withdrawal rate is the maximum percentage that you can withdraw from an investment portfolio each year to provide income that will last, with reasonable certainty, as long as you need it.

8. **Tax Deferral**
   Tax deferral refers to the opportunity to defer current taxes until sometime in the future. Why is it important? Contributions and any earnings produced in tax-deferred vehicles like 401(k)s and IRAs are not taxed until withdrawn. This allows those earnings to compound, further adding to potential investment growth.

9. **Risk/Return Trade-Off**
   This concept holds that you must be willing to accept greater risk in order to achieve a higher potential return. Why is it important? When considering your investments, the goal is to get the greatest return for the level of risk you’re willing to take, or to minimize the risk involved in trying for a given return. All investing involves risk, including the loss of your principal, and there can be no assurance that any investing strategy will be successful.

10. **The Fed**
    The Federal Reserve, or “the Fed” as it’s commonly called for short, is the central bank of the United States. Why is it important? The Fed has three main objectives: maximum employment, stable prices, and moderate long-term interest rates.

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The Cost of Waiting

Starting to save early means your money has more time to grow for you. Even if you can only afford to set aside small amounts, compounding earnings can make them really add up. It’s never too late to begin, but as this illustration shows, the sooner you start, the less you may need to rely solely on your own savings to build your total nest egg.

![Illustration showing the impact of starting to save early](image)

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**Thank You**

for your referral!

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SAVING & INVESTMENT *

Points to consider
If your Retirement savings goal seems out of reach

Each year in its annual Retirement Confidence Survey, the Employee Benefit Research Institute reiterates that good saving is a key factor influencing overall retirement confidence. But for many, a retirement savings goal that could reach $1 million or more may seem like a daunting and impossible mountain to climb. What if you’re investing as much as you can, but still feel that you’ll never reach the summit? As with many of life’s toughest challenges, it may help to focus less on the big picture and more on the details.* Start by reviewing the following points.

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