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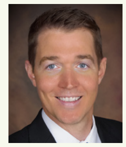
Guidance and advice to get you there.
JULY 2018



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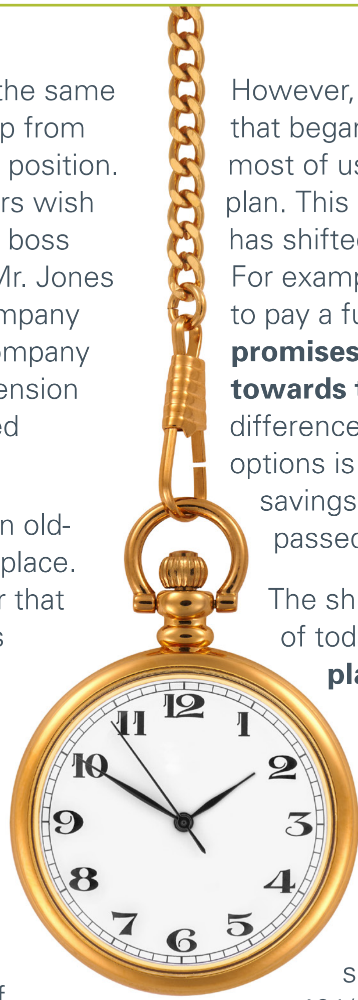
THE OUTCOME IS INCOME®

The Gold Watch and the Nest Egg

You know the cliché: after 40 years with the same company, Mr. Jones has worked his way up from an entry-level clerk to middle management position. On the day before retirement, his coworkers wish him well by enjoying a piece of cake as his boss presents him with a coveted gold watch. Mr. Jones is comforted in knowing he helped this company become successful, and as a result, the company will continue to support him through the pension he was promised on the very day he started employment with the organization.

Today, this seems closer to a scene from an old-time movie than the reality of today's workplace. So, what happened? To completely answer that question, one could feasibly compile pages of text and conduct hours of debate. For simplicity's sake, I will focus on one aspect: The **paradigm shift** in the way employees and employers approach retirement savings.



Most likely, our fictitious character Mr. Jones was the benefactor of a defined benefit plan, also known as a pension plan. The basic premise around this type of retirement plan is that an employee promises to be loyal to an employer for a specific amount of time. In return, the employer promises to pay a salary, in addition to a certain benefit after the employee retires. **It is the responsibility of the employer to set aside the proper dollar amounts to satisfy this future obligation.** It is also the responsibility of the employer to shoulder the investment risk associated with this future obligation.

However, there has been a shift in this approach that began with the rise in popularity of what most of us know today as a defined contribution plan. This relatively new retirement plan trend has shifted the benefit from future to present. For example: rather than an employer promising to pay a future benefit, **instead the employer promises to pay a current contribution towards the employee retirement.** The primary difference between these two retirement plan options is that investment risk (the risk that the savings may not equal a future expectation), is passed from the employer to the employee.

The shift continued further as the popularity of today's **defined contribution retirement plans** began to rise. In addition to investment risk, employees began to share in the responsibility of contributing toward their own retirement. The employer match as the secondary funding mechanism soon became a new employer-offered benefit of these retirement plans, such as profit sharing [ultimately the 401(k)]. Fast-forward to today and it is not uncommon to see 401(k)s that are solely funded by the employee with no employer match.

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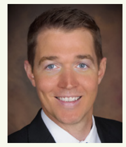

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Seems pretty dreary, agree? We have transitioned from an economy where the employer promised to take care of us in return for our loyalty to an economy where there is little to no loyalty. **Still, it is not all bad news.** While the shift in employer-sponsored retirement plans has put more of the responsibility on the employee, today's popular plans are more flexible, customizable and transportable. This shift has allowed us (employees) to be more mobile. Instead of staying at a job for fear of losing our pension, we can seek a new job or career path and take our retirement plan with us. Because it is yours – you own it! While the gold watch may not be waiting for you at retirement, hopefully a nest egg is. Just remember to add to it early and often.

It should be noted that pension plans still exist. They are endangered, but not extinct. In fact, in the public sector they are still the most popular retirement plan…for now.

To review your 'nest egg' and conduct a portfolio analysis, please contact **Jeff Mahoney**, CFP® at jeffmahoney@hjsims.com or (952) 683-7503.

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