RETIREMENT PLAN REVIEW

PCA Retirement & Benefits, Inc.

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The BIGGEST Money Mistakes People Make

An Exploration of Each Generation's Common Financial Missteps

"I can't believe I made the same mistake again…" I remember saying that more than once through the years. I also remember hearing it from parishioners. Whether that "mistake" was a bad business decision or something weightier like marital unfaithfulness, our calling as ministers in that moment is to provide the healing balm of the gospel on those wounds. Sometimes that balm is accompanied with the sting of consequences, but at all times it comes with grace and mercy to heal and restore. But what about the "new" mistakes we seem to make through the new seasons of life? The older I get, it seems that while I begin to make the "same" mistakes less, I keep stumbling onto new mistakes. This issue of the Retirement Plan Review is dedicated to helping you identify the common money mistakes of each decade of our lives. Think of it as our pastoral warning about things to avoid in the years ahead.

MILLENNIALS (20-35 yr. olds)

Our twenties and thirties are filled with transition. For many of us, we graduated from college, then some of us graduated from seminary. And during that time a number of us got married and started a family. During this season of life there are a number of common mistakes:

- "We'll start saving for retirement later." This is a big one and the reality is that the most important factor in saving for the future, TIME, is on your side now. No amount is too small. The power of compounding interest teaches us that if you save $150 a month from age 25 until you retired at age 70, you would have over $380,000 saved. Begin by contributing a little bit each month. Your 403(b) is a great vehicle to do this because your contributions are made pre-tax, thus reducing your taxable income, and your money grows tax deferred.

In the midst of beginning marriage and starting a family, our 20s and 30s can present a number of common financial mistakes. But...TIME is on your side!

- "Let's go conservative." Because time is on your side, this is the season in which you can take more risks with your retirement savings. This is one of the reasons we created the Target Date Funds. During these years, your retirement account is invested heavily in stocks. Therefore, if the markets go up,

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then you will get all the gains. If the market goes down, as any healthy market must do, you have time to recover any potential losses.

- "I am not going to worry about things like retirement, disability insurance and stuff like that. The church will take care of us." The church has indeed promised to provide for you and your family, but many times the church and the pastor are unaware of what is required to do so. This is why the General Assembly recommended the Call Package Guidelines, which RBI updates every year. You can find the latest versions at http://pcarbi.org/publications-2/.
- "Because of our housing allowance benefit we can afford a bigger house than we initially thought." It is during these years that many of us buy our first home. Buying more house than you can afford is a universal issue, but it is heightened for pastors. Because of the way many of our calls are presented, a great number of ministers are unclear of what their actual take home pay is. They buy a home without taking into account how their compensation is reduced by things like Social Security taxes, and potentially other benefits. As a result, they take on a greater debt load than most financial planners recommend. "One benchmark sometimes used…is that payments on consumer debt should not exceed 20% of net income (gross income minus taxes)."[1]

GENERATION X (35-50 yr. olds)

During our mid to late thirties and into our early forties many of us become busy with a growing family and ministry. It is during this period that we begin to realize:

Our mid to late thirties and into our early forties is when many of us become busy with a growing family and ministry. Now, we begin to realize...

- "Children are indeed priceless." It is during this season that many of us spend a lot more than we expected on our children. Whether it's piano, rec soccer or the youth group mission trip, there is always a new expense. "Jennifer Lane, a financial planner at Compass Planning Associates in Boston, Mass, recommends that in general, parents pay no more than 10% of income on expenses for children."[2]
- "We are going to have mortgage payments until what age?" During this period some of us will purchase our second home or take out equity in our current home to add to or update it. The end result is the possibility of taking on a mortgage payment that will last into our mid to late 70s. In order to avoid this mistake, you may need to get a new, shorter mortgage or consider paying your current mortgage off early. You can do this by making an additional payment every year that can be put towards your principle or even make payments every two weeks. The possibilities are endless.
- "What are we going to do about paying for college?" For those of us with children, this is the time to begin thinking about saving for college, but remember, saving for retirement takes first priority. One of the biggest mistakes people make in this season is to send their children to a university that is out of their price range. In order to do so, they rack up huge school debt that they either carry with them into retirement or pass on to their children. Prayerfully consider what your family can afford and then talk with your children about it. Give them a vision for how their hard work could help open options through academic scholarships or grants.
- "Teaching my kids about money isn't a part of my discipleship plan for them." Most of us in ministry hate talking about money and finances, but that doesn't change the fact that the Lord has entrusted us with children to disciple. Money is going to be one of the biggest areas of their lives that they must learn to submit to the Lord's rule. We

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[1]: Mannaioni, David. "Introduction to the Financial Planning Process." College for Financial Planning, 0101-01-01T00:00:00+00:00. iBooks. This material may be protected by copyright.

[2]: http://www.wsj.com/articles/the-biggest-money-mistakes-we-makedecade-by-decade-1477275181

The VALUE of being Conservative

Investing in a Rising Interest Rate Environment for Retirees and Near Retirees

What does the future hold for investors? It's difficult to know, isn't it? The stock market has soared to new heights over the past couple of months since the election. Expectations are high that many sectors of the economy will fare well under the new policies of the Trump administration. But the prospects of economic growth usually also indicate rising inflation and interest rates – something that we have already begun to experience.

Rising interest rates can pose a significant challenge for investors. Generally speaking, when interest rates rise, bond prices fall. But not all bonds respond in the same way or to the same degree. Long term bond funds lose significant value when rates rise. But bonds with shorter durations are less susceptible to price declines. The six different bond funds inside of the PCA Target Funds are actively managed and shorter in duration. These funds are structured to minimize the effects of rising interest rates.

So what is the value of holding bond funds in an environment like the one that we are in today? Is there any value to being conservative? Absolutely. Even in rising interest rate environments, bonds continue to offer a measure of safety and risk reduction to a portfolio. Consider the following reasons why a conservative portfolio with a high concentration in bond funds still makes sense today.

Income generation. Perhaps it could be said that the primary role of bonds in a portfolio is to produce secure income. Though rising interest rates may cause temporary declines in fund values, the interest earned by the investments in a bond fund does not decline. In fact, as individual bonds in the fund mature, those dollars are reinvested by the fund manager at higher rates and begin to earn even more income. As a result, the pain of rising interest rates is often rapidly alleviated by higher returns.

Asset Allocation. Bonds help diversify a portfolio by reducing the magnitude of the highs and lows. And during market declines, bonds often outperform stocks and help insulate diversified portfolios from losses. For example, all else being equal, if the stock market declines by 20%, then a 50/50 stock/bond portfolio might only decline by 10%.

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INVESTMENT PERFORMANCE: Average Annual Return Through 12/31/16

CORE FUNDS

	4TH QTR 16	1 YR.	3 YR.	5 YR.	10 YR.
PCA Large Cap Growth	1.28%	5.88%	6.65%	11.57%	6.89%
PCA Large Cap Value	6.83%	15.26%	7.26%	14.23%	N/A
S & P 500 Stock Index	3.69%	11.34%	8.33%	14.08%	6.34%
PCA Mid Cap Growth	0.38%	8.00%	5.01%	13.05%	7.70%
PCA Mid Cap Value	6.52%	20.53%	7.45%	14.81%	6.87%
PCA Small Cap	7.02%	14.91%	3.29%	N/A	N/A
International Stock	-1.71%	6.32%	-1.00%	4.73%	-0.04%
PCA Diversified Bond	-3.02%	2.58%	2.65%	2.25%	3.91%
Conservative Bond	-0.15%	2.07%	1.04%	1.00%	2.01%
Money Market	-0.07%	-0.19%	-0.32%	-0.36%	0.42%

TARGET FUNDS

	4TH QTR 16	1YR.	3YR.	5YR.
PCA TR2060	1.84%	9.72%	N/A	N/A
PCA TR2055	1.83%	9.72%	2.93%	10.01%
PCA TR2050	1.83%	9.72%	2.93%	10.01%
PCA TR2045	1.88%	9.47%	2.85%	9.82%
PCA TR2040	1.79%	9.08%	2.75%	9.45%
PCA TR2035	1.73%	8.39%	2.58%	8.88%
PCA TR2030	1.43%	7.15%	2.39%	8.11%
PCA TR2025	0.83%	5.42%	1.97%	7.16%
PCA TR2020	0.52%	4.78%	1.88%	6.31%
PCA TR2015	0.02%	3.81%	1.83%	5.39%
PCA TR2010	-0.12%	3.71%	1.99%	4.63%
PCA Harvester	-0.03%	4.34%	2.25%	3.85%

Note: *Investment returns shown are net of investment manager, custodial and administrative fees. The above returns are unaudited.*

The VALUE of being Conservative — *Continued from page 3*

When stocks decline, the Federal Reserve Bank has moved to lower interest rates, which in turn leads to bond values actually rising, mitigating portfolio losses. So bonds have a 'smoothing effect' on portfolio returns. This is especially helpful to retirees and near retirees who can experience real losses if markets decline when taking distributions.

Using bonds to hedge against portfolio risk may seem like cold comfort when the stock market is rising. When markets are soaring, it seems as if they will never decline! But markets do rise *and fall*. And seasoned investors with long-term perspectives recognize the value of minimizing portfolio losses. Those tempted to take on more risk to earn higher returns must be careful not to let the pain that was experienced in 2008 and 2009 fade into distant memory.

Help in staying the course. Behavioral risk is perhaps the most insidious risk that investors' face, and it lives in each of us. Our most egregious investing mistakes often find their origin here. Though behavioral risk exists in up and down markets, bull markets cause amnesia. They cause us to forget the pain of past declines and convince us that we are far more risk tolerant than we really are. But when markets decline, anxiety takes over and we feel compelled to sell stocks at 'fire sale values' just to be able to sleep at night.

Holding bonds reduces losses, and eases that temptation. It helps us stay the course so that we can achieve our investing goals. Selling in bear markets often leads to huge losses and permanent damage. One study suggests that selling in a bear market can be five times more costly than holding fewer stocks over the long term. So bonds provide an 'emotional hedge' against instinctively bad investing behavior.

PCA Target Funds are designed to mitigate losses by holding a mixture of short-term, government, municipal, mortgage backed, corporate, investment grade, inflation protected, and floating rate bonds. So, even though rising interest rate environments pose a challenge for investors, there are still good reasons to maintain a conservative portfolio. Don't undervalue the benefits of owning bonds! The stability that bonds provide to a portfolio helps investors stick to a plan and achieve their goals over the long haul.

— Dave Anderegg, *Financial Planning Advisor*

The **Biggest** Money **Mistake** — *Continued from page 2*

have a wonderful opportunity to train up the next generation of Christians to be generous with their resources because of God's generosity towards us. Why would we want to turn that opportunity down?

- "We need to help with our aging parents financial needs." It is during this season of life that many of us feel the pressure of financial demands from the needs of our children as well as our parents. We are the in the middle of a sandwich and are being squeezed financially from both sides. This is the time to have honest and healthy conversations about how we can help our parents and what assistance we are able to provide. These conversations often require great wisdom and the guidance of the Holy Spirit. Sanctification is often a road of hard conversations and this may be one of them for you. Seize the opportunity to grow in grace and love your family well.

Boomers **(50-70 yr. olds)**

Return on investments is a significant concern for investors nearing or in retirement. Due to recent concerns expressed by a number of our participants in this age group, we have devoted an entire article to address the value of being conservative as you prepare for and enjoy your retirement years. *(See page 3)*

— Ed Dunnington, *Financial Planning Advisor*

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