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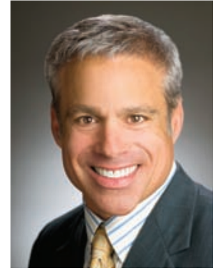

FINANCIAL OUTLOOK

WINTER 2013

WHY AREN'T MORE OF US WORKING?

Since the beginning of the Great Recession in 2007, U.S. unemployment has reached some of its highest levels since the Great Depression of the 1930s. After reaching a high of 10.2% in October 2009, unemployment fell to 8.2% in June of 2012 (Source: Bureau of Labor Statistics, 2012). But what does that mean, and are things even worse than those numbers show? Why are so many Americans out of work, and how long will it take before unemployment goes down to healthier levels?

PUTTING CURRENT UNEMPLOYMENT LEVELS IN HISTORICAL CONTEXT

The U.S. Department of Labor has kept unemployment statistics that are consistent with the numbers calculated today since 1948 (so we can't compare current unemployment figures to Depression-era data). Since 1948, unemployment was at its highest level — 10.4% — in January and February of 1983. The unemployment peak in October 2009 — 10.2% — was just a fraction below the previous monthly high. So in that respect, we're not in quite as bad shape as in the 1980s.

But in another respect, current unemployment is worse: back in the early 1980s, unemployment stood above 9% for 19 consecutive months and above 8% for two years. The current economy has seen unemployment above 9% for 25 months — one-third longer — and above 8% for 41 months, nearly two-thirds longer than in the 1980. In June, the Labor Department reported that of the 12.7 million Americans counted as currently unemployed, some 5.4 million (42% of the total) had been out of work for 27 weeks or longer.

In terms of duration, to find a worse period you have to go back to the Great Depression. The U.S. Census says unemployment reached a high of 24.8% in 1933, was above 21% for three years (1932–34), was in double digits for 10 straight years (1931–1940), and was above 8% from 1930 through 1941, inclusive.

So, yes, things were much worse jobs-wise in the 1930s, proof that such post-Depression innovations as

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YOUR RETIREMENT PLANNING ASSUMPTIONS

To enjoy your retirement without financial worries, make sure you have enough money saved when you retire. However, that calculation can be a daunting task, since a variety of factors affect your answer, and inaccurate estimates for any factor can leave you with way too little in savings. Some of the more significant factors include:

WHAT PERCENTAGE OF YOUR PRERETIREMENT INCOME WILL YOU NEED? You can find various rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income. On the surface, it seems like you should need less than 100% of your income. After all, you won't have any work-related expenses, such as clothing, lunch, or commuting costs. But look carefully at your current expenses and how you plan to spend your retirement before deciding how much you'll need. If you pay off your mortgage, stay in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, then you might need less than 100% of your income. However, if you travel extensively, pay for health insurance, and maintain significant debt levels, even 100% of your income may not be enough. You need to take a close

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Why Aren't?

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unemployment benefits, Social Security, and other social programs that pump money into the economy have worked to keep more people from joblessness. But what the current numbers don't show is the full extent of the damage to working people in America over the last four-plus years.

"Official" Unemployment Figures Don't Accurately Represent the Size of the Problem

The Labor Department calculates the unemployment rate as the total number of people out of a job but are actively looking for one, divided by those people plus the ones who have jobs. There are two kinds of people it doesn't include. First are those who have given up looking for a job, even though they're of working age and physically capable. The Labor Department says there are 821,000 Americans in this category. If they were included in the work force, the unemployment rate would be 8.7%.

The unemployment rate also doesn't include people who are "underemployed" — those who want full-time jobs but can only find part-time employment and/or are working at lower-skilled and lower-paying jobs than they're qualified for. The Labor Department reports the *under*employment rate was 14.9% at the end of June. Add that to the 8.2% of Americans who are unemployed, and the percentage of the work force suffering is 23.1%.

What Is the Cause of Persistently High Unemployment?

But *why* are so many people still out of work? There are two ways to approach that question. The first is to focus on economic weakness: the economy isn't growing fast enough to absorb the growth in the labor force *and* put all the people who lost their jobs since 2007 back to work. Since March 2010, some 3.5 million new jobs have been filled; but over the same period of time, the labor force grew by 1.3 million people — meaning that the ranks of the unemployed shrank by 2.2 million.

Economists estimate that the U.S. economy needs to grow at an annual rate of 2.5% to 3% just to absorb the natural growth in the country's job force. It needs growth of more than 4% a year to make a significant dent in unemployment. Given the rate that the Office of Management and Budget projects the economy will grow, the unemployment rate will drop very gradually over the next decade, to 7.7% in 2013, under 7% by 2015, and reaching 5.4% and holding not until 2018.

The second way to explain persistently high unemployment is to look at the factors that underlie economic growth. That involves a debate between the neo-Keynesian school of thought, which holds that the problem is a lack of aggregate demand, and the more conservative point of view that excessive government interference in the economy is discouraging businesses from hiring. Both agree that businesses and consumers have trillions of dollars in savings tucked away waiting for the right moment to start investing it in new hires and equipment, and the economy is not likely to recover until that happens.

However one approaches the question, the answer is essentially the same: economic growth simply has not been robust enough to quickly and dramatically reduce the unemployment rate. Until investors and business owners have some certainty about the future — after we know what Congress will do about the tax cuts and spending programs that are set to expire at the end of the year, and after the situation in Europe moves one way or the other — the unemployment rate is not likely to change much. ❍❍❍

Protecting Your 401(k) Plan

Reviewing your 401(k) plan on an annual basis helps you make sure your plan is on the proper course. Here are three steps to use when reviewing your 401(k) plan:

❍ **Consider your goals** — Keep your financial goals in mind as you review your 401(k) plan. Have you experienced life changes that affect your goals? Has your income or family situation changed? Do any of these changes require changes to your 401(k) plan?

❍ **Consider your contributions** — If your company offers matching contributions, one of the biggest mistakes you can make is not to contribute enough to take advantage of the full matching amount. As part of your review process, create a detailed annual budget and actively look for ways to contribute more income to your 401(k) plan. Or resolve to put any pay increases directly into your 401(k) plan, before you find ways to spend the additional money.

❍ **Consider rebalancing** — Most 401(k) plans have a wide variety of investment options, so you should be able to broadly diversify your holdings. Don't invest too much in your company stock. Take a look at all of the plan's investment options, reviewing their historical performance. Compare that to your investments, and decide whether any changes are needed. There are no tax consequences to making investment changes within your 401(k) plan.

Please call if you'd like help reviewing your 401(k) plan. ❍❍❍

Your Retirement

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look at your expenses and planned retirement activities to come up with a reasonable estimate.

When will you retire? Your retirement date determines how long you have to save and how long investment returns can compound. You want to make sure your retirement savings and other income sources, such as Social Security and pension benefits, will support you for what could be a very lengthy retirement. Even extending your retirement age by a couple of years can significantly affect the ultimate amount you need.

How long will you live? Today, the average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84 (Source: Social Security Administration). Most people look at average life expectancies when estimating this, but average life expectancy means you have a 50% chance of living beyond that age and a 50% chance of dying before that age. Since you can't be sure which will apply to you, it's typically better to assume you'll live at least a few years past that age. When deciding how many years to add, consider your health as well as how long other family members have lived.

What long-term rate of return do you expect to earn on investments? A few years ago, many retirement plans were calculated using fairly high rates of return. Those high returns don't look so assured now. At a minimum, make sure your expectations are based on average returns over a very long period. You might even want to be more conservative, assuming a rate of return lower than long-term averages suggest. Even a small difference in your estimated and actual rate of return can make a big difference in your ultimate savings.

Have you considered inflation? Even modest levels of inflation can significantly impact the purchasing power of your money over long time periods. For instance, after 30 years of just 2% inflation, your portfolio's purchasing power will decline by 45%. When estimating an inflation figure, don't just look at the historically low inflation rates of the recent past. Also consider long-term inflation rates, since your retirement could last for decades.

What tax rate do you expect to pay during retirement? Especially if you save significant amounts in tax-deferred investments that will be taxable when withdrawn, your tax rate can significantly affect the amount you'll have available for spending. You may find your tax rate is the same or higher after retirement.

Once you've estimated these factors, you can calculate how much you'll need for retirement. Please call if you'd like help with this calculation. ❍❍❍

Should You Defer Income Taxes?

Should you pay income taxes now, so you can withdraw funds after retirement tax free? Or are you better off delaying income taxes until after retirement? This is the basic decision when choosing between a traditional deductible individual retirement account (IRA) and a Roth IRA, or between a 401(k) plan and a Roth 401(k) plan. With the Roth options, you are paying taxes now so you can take qualified distributions income-tax free. With the traditional IRA and 401(k) plan, you are delaying taxes until distributions are taken.

The standard advice is to consider whether your tax bracket will be higher or lower in retirement. If you are likely to be in a higher tax bracket, you'll usually benefit from the Roth options, because you are paying taxes at a lower rate now. If you're likely to be in a lower tax bracket, you may benefit more from the traditional IRA and 401(k) plan, because you'll pay taxes at a lower rate after retirement.

Most people naturally assume that their tax rate will be lower in retirement, since their income will typically be lower. That assumes that income tax rates will stay constant over that time period, even though tax rates are at historically low levels. No one knows how those rates will be adjusted by Congress over the years. However, many believe that income tax rates have no where to go but up.

Thus, it may be prudent to use tax diversification for your portfolio. Tax diversification attempts to protect your portfolio against tax rate fluctuations. It is a concept similar to asset allocation, where you protect your portfolio against price fluctuations. With tax diversification, you invest in a number of investment vehicles with different tax ramifications.

For instance, you might invest in a Roth IRA, where qualified distributions can be taken with no tax consequences; a 401(k) plan, where you save taxes now and pay ordinary income taxes of up to 35% on qualified distributions; and taxable accounts, where the capital gains tax of a maximum of 15% must be paid on sales of appreciated investments. Thus, during retirement, you can monitor your tax situation and withdraw money from the assets that make the most sense in any particular year.

Please call if you'd like to discuss this in more detail. ❍❍❍

Financial Data

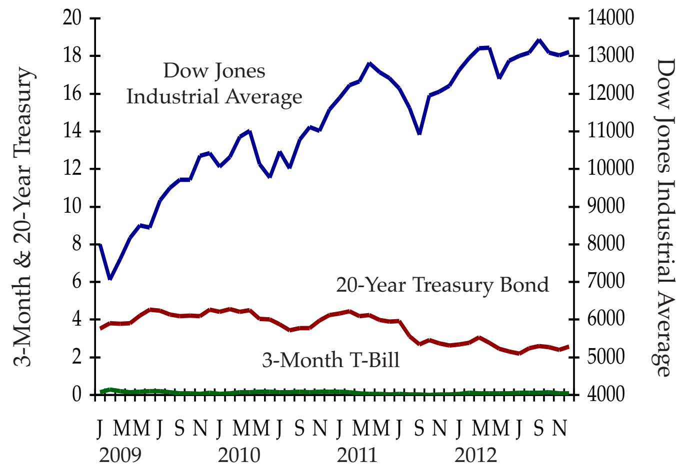
Indicator	Oct-12	Nov-12	Dec-12	Dec-11	Dec-10
	Month-end				
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.51	0.51	0.51	0.49	0.00
3-month T-bill yield	0.13	0.10	0.09	0.03	0.18
20-year T-bond yield	2.55	2.40	2.56	2.63	4.23
Dow Jones Corp.	2.66	2.68	2.70	3.74	3.89
30-year fixed mortgage	2.80	2.69	2.81	3.42	4.51
GDP (adj. annual rate)#	+2.00	+1.30	+3.10	+3.00	+3.10

Indicator	Oct-12	Nov-12	Dec-12	2012	2011
	Month-end			% Change	
Dow Jones Industrials	13096.46	13025.58	13104.14	7.3%	5.5%
Standard & Poor's 500	1412.16	1416.18	1426.19	13.4%	0.0%
Nasdaq Composite	2977.23	3010.24	3019.51	15.9%	-1.8%
Gold	1719.00	1726.00	1662.00	5.9%	11.7%
Consumer price index@	231.40	231.30	230.20	1.8%	3.4%
Unemployment rate@	7.80	7.90	7.70	-11.5%	-11.2%
Index of leading ind.@	95.80	96.00	95.80	-18.4%	4.4%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

January 2009 to December 2012



Past performance is not a guarantee of future results.

News and Announcements

James M. Stahl, CFP®, ChFC® Joins Saline Financial Solutions

Last November, Saline Financial Solutions (SFS) welcomed James M. Stahl as investment adviser representative and newest member of its team. A specialist in financial planning, retirement planning, portfolio development, and corporate retirement plan counseling, Jim provides clients advice and assistance with their financial affairs. He is also well versed in estate and wealth transfer strategies.

Prior to joining Saline Financial Solutions, Jim was a financial advisor for LPL Financial in Hamilton, New Jersey. Jim's career began as a member of the analyst team supporting financial controls and risk analysis at Goldman Sachs in downtown New York. He is Series 7 and 66 licensed and holds the Certified Financial Planner™, Chartered Financial Consultant™, and Accredited Investment Fiduciary® professional designations. Most recently, Jim was recognized as a Five Star Wealth Manager* in both 2012 and 2013. This is an annual honor given to less than one percent of wealth managers out of a population of over 49,000 registered financial services professionals in New Jersey.

"Jim has a great mind for business and believes strongly in the client service principles we hold in high regard at our firm," says Jeffrey J. Saline, president of Saline Financial Solutions. "As the son of a long-time Verizon employee, he has quite a bit in common with many of our clients. We are proud to have him as a member of the SFS team."

Jim graduated from the business school at The Pennsylvania State University (Main Campus), University Park, Pennsylvania, with a Bachelor's degree in Management Science in 1999. Born and raised in New Jersey, Jim currently resides in Hainesport with his wife, Kim. He is an avid sports fan and enjoys biking, running and skiing.

Other Newsworthy Tidbits

Looking ahead in 2013, Jeff and the entire SFS staff wish you and your family a healthy, happy new year! We appreciate your business and look forward to working together for a promising future!

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