# The Advisor

610 Smithfield Street, Suite 400 | Pittsburgh, PA 15222 | www.fragassoadvisors.com

October 2014

FRAGASSO FINANCIAL ADVISORS

## RETIREMENT PLANNING MISTAKES AND SUCCESSES

***Robert Fragasso, CFP®, AIF®***
***Chairman and Chief Executive Officer***

## In this issue...



"Raise your hand if you wish to retire uncomfortably and insecurely." That is the question we have asked in our retirement security classes for years. No one has yet elected that as a goal. The expectation is that you also would not. But what comprehensive planning do you have in place to define your retirement objectives and to determine the assets you will need to successfully navigate retirement? Most honest answers have to center on, "Not much."

Let's begin with the mistakes people make regarding retirement security. Reversing or avoiding those mistakes will often lead to retirement success.

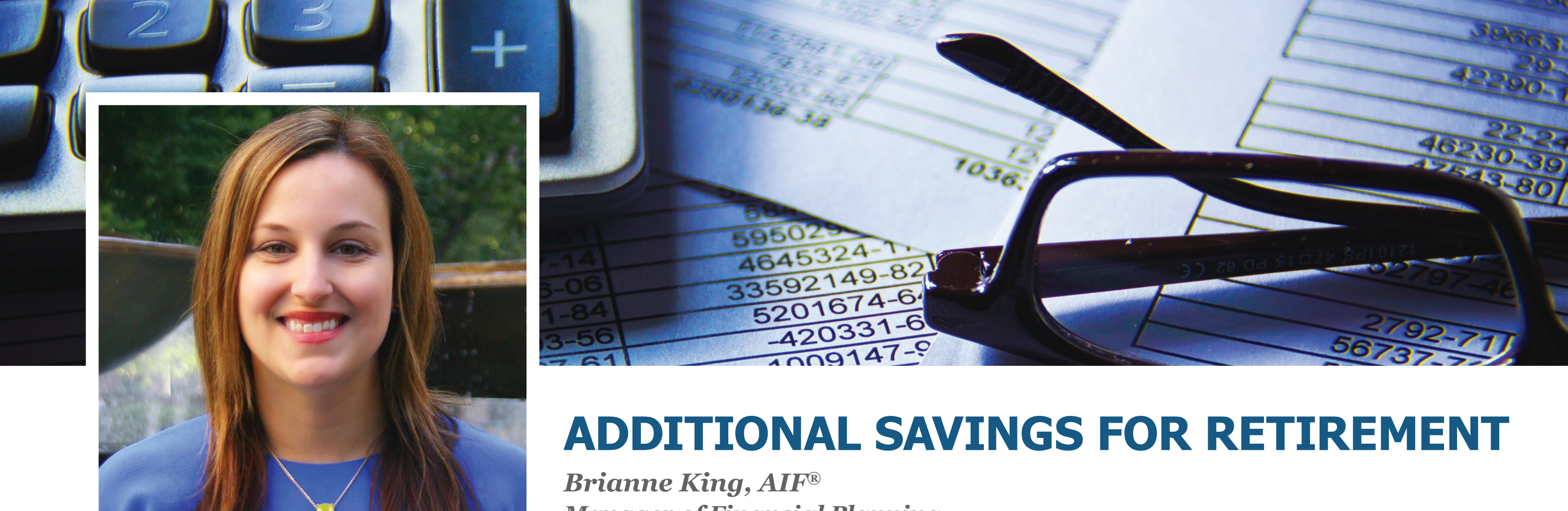
1. No plan. That means that your retirement vision has never been priced out as a goal and that no planning schedules have been created to map a path for achievement of that vision.

2. Ignoring the effects of inflation over time. Average inflation since World War II has been 4 percent. Even when accounting for the Depression years of the 1930s, inflation has averaged 3.1 percent[1]. Inflation is a fact of economic life, regardless of economic cycles over time. 4 percent inflation compounded for 10 years means that you need 48 percent more money to live in the same way as you began that decade. And life expectancy in a normal retirement is 20 years. So you will need 2.25 times your income at the end of retirement as you did when you comfortably started off into your golden years. Not planning for inflation will likely cause you to eat capital and constrict your lifestyle as the years go on.

3. Assuming that a lower, fixed-income rate of return is desirable, feeling that it is "safe." A 5 percent rate of return becomes deteriorated by both inflation and taxation to leave very little for spending needs on an adjusted basis. One soon realizes that return was merely guaranteed and not as safe as first assumed.

*1 - Source:http://www.bls.gov/cpi/*

*[Continues on page 3.]*



# ADDITIONAL SAVINGS FOR RETIREMENT

***Brianne King, AIF®***
***Manager of Financial Planning***

It has been said time and time again, "The more things change, the more they stay the same." Well, one thing that has been changing over the years is people's life expectancy. People are living longer than ever due to major medical advances. What is staying the same is people's retirement age. According to the most recent Gallup poll[1], the average American who is still working believes they will retire at age 66, however the average actual retirement age is 62. That means if you start your career at age 22, retire at 62, and live until age 90, you have 40 years of working to fund 28 years of retirement! Those numbers emphasize the importance of save, save, save!

We always recommend that if you qualify for a retirement plan through your employer that you save as much as you can into that plan. If your plan is a 401(k) or a 403(b) you can put in up to $17,500 per year or $23,000 if you are over the age of 50. Additionally, in most cases your employer will also contribute to your retirement account if you are participating.

Also consider the impact of making an annual IRA contribution. This may also be a tax-deductible contribution depending on your income. (See chart below.) It is important to underscore how powerful tax-deferred savings vehicles can be. The money you put into your IRA will grow tax-deferred, just like your employer retirement plan, until you take a withdrawal. The money that would have gone to pay taxes is instead invested and benefits from compound growth. Over time compound growth can significantly increase your assets, which make your hard-earned savings work even harder to fund your future.

In addition to tax-deferred growth, Fragasso Financial Advisors is an independent advisory firm that utilizes many mutual funds that do not require you pay an upfront sales charge, which can be as high as 5.75 percent of your contribution. This means more of your contribution is working for you!

Proper saving is a critical piece to your financial future. We understand how important it is to not only feel secure in retirement but to fully enjoy it as well. Your financial advisor is always available to work with you to ensure you are on track to a happy and fully funded retirement!

| FILING STATUS | COVERED BY A RETIREMENT PLAN | 2014 MODIFIED AGI | DEDUCTIBILITY |
|---|---|---|---|
| Single | Yes | $59,999 or less | Full Deduction |
| | | $60,000 - $69,000 | Partial Deduction |
| | | $70,000 or more | No Deduction |
| Married Filing Jointly | Both spouses are covered by employer retirement plan and your income is: | $95,999 or less | Full Deduction |
| | | $96,000- $115,999 | Partial Deduction |
| | | $116,000 or more | No Deduction |
| Married Filing Jointly | You are covered by an employer retirement plan and your income is: | $95,999 or less | Full Deduction |
| | | $96,000 - $115,999 | Partial Deduction |
| | | $116,000 or more | No Deduction |
| Married Filing Jointly | You are not covered by an employer retirement plan but your spouse is covered and your income is: | $180,999 or less | Full Deduction |
| | | $181,000 - $190,999 | Partial Deduction |
| | | $191,000 or more | No Deduction |
| Single or Married Filing Jointly | You and your spouse are not covered by an employer retirement plan: | No Income Limits | Full Deduction |

*1. http://www.gallup.com/poll/168707/average-retirement-age-rises.aspx, April 2014*

*[Cover story continued]*

4. Not knowing how much to save toward retirement and thus saving too little, too late.

5. Not taking advantage of tax-favored company and personal retirement plan opportunities. Deferring taxes now means the money is working at full value for all of the future years until it is needed. This amasses much more versus investing in the full light of current taxation.

6. Poor cash flow management and debt accumulation. There are only three kinds of households; those that spend all that they make and accumulate nothing, those that spend more than they make and accumulate debt or those who spend less than they make and accumulate assets. Barring a lottery winning or unexpected inheritance, all that will be there when you get to retirement is what you send on ahead. Budgets work as well as diets, meaning that they don't. But behavior modification based on goal attainment does accomplish the desired end.

7. Not maximizing other company-provided fringe benefits. These should be considered and incorporated into a well-managed financial plan.

8. Not considering the costs of investing, both overt and hidden, that can detract from asset accumulation. Disclosure, transparency and awareness are your allies in retirement investing.

Some readers may be tempted to say this is fairly basic. We agree, but let me ask you. Are you doing this? If not, who loses? Most people need professional guidance to get on and stay on the right track. If you do that, you are the winner.

Reversing and avoiding all of these retirement traps and employing all of the textbook proven techniques form the secret to retirement success. This advice applies to young people starting out and, even more so, to older folks whose time horizons are more limited. Today is the first day of the rest of your life. Will you seize it? Call us now to get started on the right course of action. ■

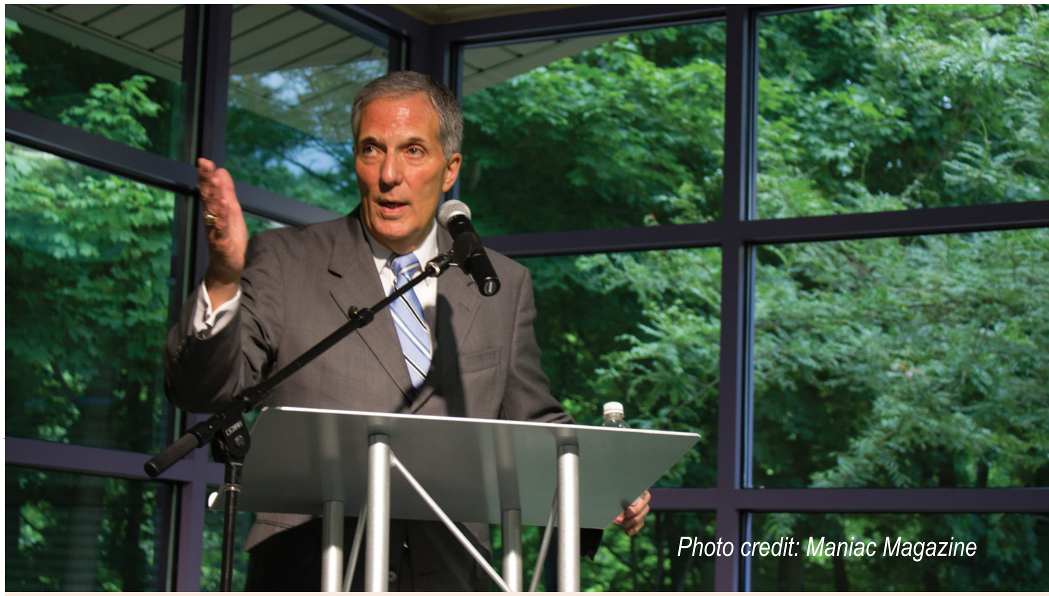


Photo credit: Maniac Magazine

## POLICE DEPARTMENTS RECEIVE MICROCHIP SCANNERS TO HELP SAVE LOCAL PETS

Thousands of pets are lost every day, but now Allegheny County is better equipped to help locate the families of these lost pets. The project started when Bob Fragasso and his wife Janine purchased a microchip scanner for Baldwin Police Department. Now, thanks to Bob and Janine's vision and coordination with Allegheny County Treasurer John Weinstein and Allegheny County District Attorney Stephen A. Zappala, Jr., 118 police departments have received microchip scanners and training so that lost pets have a better chance of reunification with their families.

The microchip scanners, which cost approximately $200, have been purchased for municipalities where the police said they would like to do more to return lost pets to their families. These scanners have been funded by AAARF donations, collected by the Allegheny County Treasurer's Office, and the Allegheny County drug forfeiture fund.

Shelters and animal control companies routinely scan dogs and cats upon admission to their facilities allowing quick identification and return of microchipped pets to their owner. Without operable scanners, police officers are often at a disadvantage when finding a lost or stray pet and must simply wait for the owners to call the station to report the pet missing. If no call is received the pet is transferred to a shelter or animal control agency often miles outside of the municipality. With this technology, police departments can quickly reunite pets with their family.

The scanners are useless without a license or microchip implant on the animal. Many lost and stray dogs and cats held in shelters or animal control agencies may be euthanized in 48 hours. Approximately 20,000 animals are euthanized each year in Allegheny County, but if more pets have microchips, those numbers could go down.

Animal Friends will be offering chips for $20 on Oct. 23. Call 412-847-7029 or visit thinkingoutsidethecage.org for more information.

*Bryan Hoover, CFP®, AIF®*
*Vice President*

# INVESTOR BEWARE!

In the June 30 edition of the Wall Street Journal online, Bryan Hoover was interviewed by Kelly Kearsley for an article entitled, "Red Flags Spotted in a Prospect's Account." Bryan recounts an incident concerning a prospect in which he helped identify some troubling activity in their account. "Mr. Hoover and his team noticed almost daily activity in that account, and trades that seemed overly risky given the man's fast-approaching retirement. For example, the broker had bought and sold a large stock position in one day, losing $45,000 of the man's money in the process." Read more from this article at http://bit.ly/bhooverwsj. Subscription required.

## AWARDS

In July, Fragasso was named as one of the 2014 Financial Times Top 300 Registered Investment Advisors. This independent listing is produced by the Financial Times. The FT 300 is based on data gathered from RIA firms, regulatory disclosures and the Financial Times' research. As identified by the Financial Times, the listing reflected each practice's performance in six primary areas, including assets under management, asset growth, compliance record, years in existence, credentials and accessibility.

In August, Barron's ranked Fragasso Financial Advisors founder, chairman and CEO Robert Fragasso as the No. 62 financial advisor nationally on its 2014 list of Top 100 Independent Advisors. Fragasso was ranked No. 3 in Pittsburgh and No. 5 in the state of Pennsylvania. Barron's has ranked independent advisors since 2007, taking into account assets under management, quality of practices and revenue that advisors generate for their firms, among other factors. According to Barron's, the typical customer of the top 100 has an average net worth of $19.66 million. Of the independent advisors ranked, the group boasts a client retention rate of 98 percent. Fragasso Financial Advisors' retention rate is even higher at 99 percent.

## EMPLOYEE NEWS

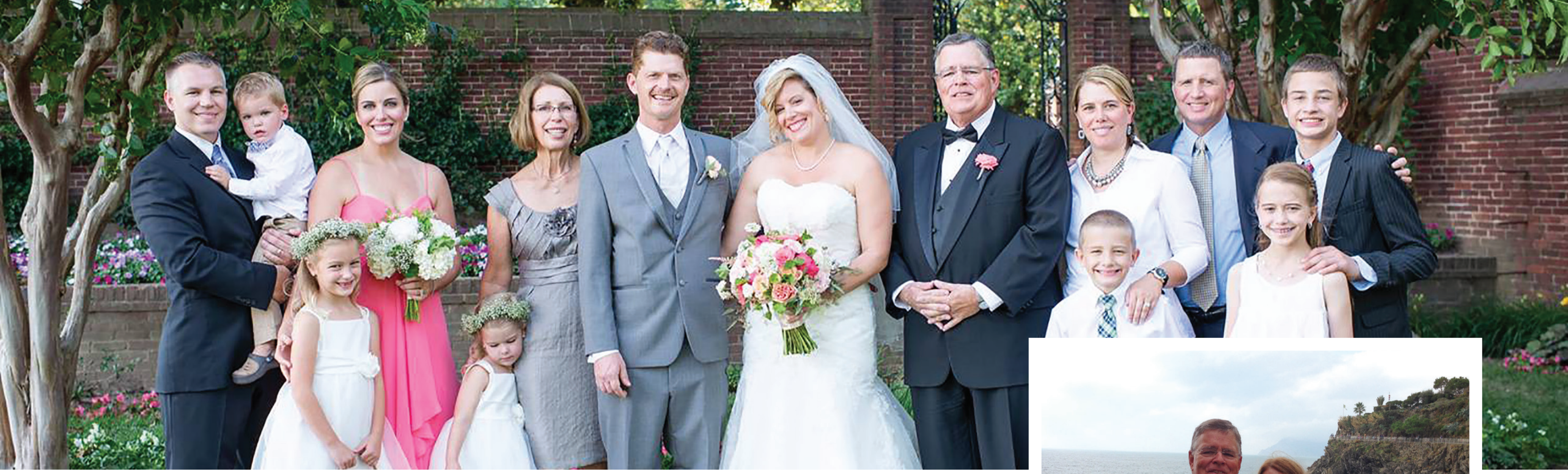
Congratulations to Lisa Brignoni, portfolio analyst, for becoming a Certified Financial Analyst. Lisa was required to pass several challenging exams, pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct, have four years of qualified investment work experience and become a regular member of CFA Institute.

Welcome to new employee, Johanna Matsui, who joined us July 1 as an administrative assistant. Johanna will be helping the client account specialists with printing and binding reports as well as filing.

## EVENTS

### Veterans Day Breakfast

On Nov. 11, 2014, the Veterans Leadership Program of Western PA (VLP) will host its 16th Annual Veterans Day Breakfast. The event begins at 8:00 a.m. in the Duquesne University Union Ballroom. Fragasso's family assets business development officer Ray Amelio, a Vietnam veteran himself, and president Dan Dingus are active members of the VLP board of directors. To register, please call VLP at 412.481.8200.



# PROFILES IN PROGRESS: KAREN AND BARNEY PULTZ

***Brian Robinette, AIF®, CRPS®***
***Vice President***

Karen and Barney Pultz met at Greensburg High School, but this isn't a tale of two high school sweethearts. In fact, they each took time to leave home and try new things. Their lives intersected once more at their five-year high school reunion, an event that ultimately triggered their relationship that has spanned several decades, three children and six grandchildren.

Karen grew up in Pleasant Unity, Pa., a small town between Latrobe and Greensburg. Her parents, Lloyd and Ruth Kalp, owned and operated a successful store in the area where they sold many of the most popular name brand appliances.

Karen attended Pennsylvania State University for one year before deciding to finish her undergraduate degree in classical history with a minor in elementary education from Seton Hill College. Karen worked for the family business along with her two brothers, Doug and Randy, until she graduated from college. She then went on to earn her master's in history at Indiana University of Pennsylvania.

Barney's parents, Frank and Margaret Pultz, raised their family in Greensburg, Pa., which is just eight miles from Karen's hometown. Barney's mom was a homemaker, raising Barney and his three brothers, Frank, Jr., Bill and Dan, while his dad started his career in the 1930s as a salesman for a Buick dealership. In 1947 Frank acquired the Oldsmobile franchise to combine with his International Truck franchise in Greensburg. Barney joined the U. S. Army in August 1966 and graduated from the Warrant Officer Flight Program in October 1967. He served almost five years on active duty including a tour in the Republic of Vietnam flying attack helicopters. Barney left active duty in 1971 after receiving a direct commission and promotion to captain at the U.S. Army Functional Test Pilot School. He worked in family businesses from 1971-84. Barney left the inactive reserve and joined the Pennsylvania Army National Guard in 1976, a weekend warrior at first, moving to full time in 1984. He graduated from Thomas Edison State College in 1999. He retired from the National Guard in 2007 as Army Aviation Flight Facility Commander in Johnstown, Pa., having proudly served his country for more than 40 years. He still works part time as a consultant for strategic advice on defense issues and defense sales.

Barney is active in a number of organizations including Rotary, The Army Aviation Association of America and Vietnam Helicopters Association of America. He enjoys cycling, fishing, boating, golfing and babysitting his grandchildren with Karen. Last March he participated in the MS 150, a cycling event for which he rode from Miami to Key Largo in order to raise awareness and money to improve the lives of people living with multiple sclerosis.

Karen worked in the Trinity Area School District in Washington, Pa., teaching 4th grade from January 1991 until her retirement in June 2009. She loves to cook, as well as sew, exercise, boat and play Mah Jongg with friends. Most of all, Karen enjoys spending time with her grandchildren.

Karen and Barney raised their three wonderful daughters, Holly, Heather and Hope, in Greensburg. Holly and her husband Andy live in Gibsonia, Pa. They have three children, Tony, Emma and Andrew, ages 15, 12 and 9 respectively. Heather and her husband Jeff married in July 2014 and live in the Capitol Hill District of Washington, D.C. Hope and her husband Shane live close by in Fort Myers, Fla. with their three children, Erin, Molly and TJ, ages 7, 4 and 2.

Karen and Barney moved from Greensburg to Washington, Pa. in 2005 to be closer to Karen's school district while she finished working there. They always planned to live near the water. They decided to move to Fort Myers once they were both retired. The move has proven to be a great decision, allowing them to spend more time enjoying their passions year around.

Karen and Barney are kind, thoughtful individuals who care deeply for their family, friends and community. We are proud to have Karen and Barney as clients and feel privileged to know them as friends.

# FIVE COMMON MISTAKES THAT MAY DERAIL YOUR 401(K) SAVINGS

*Daniel Halle, AIF®, RPA®*
*Vice President and Manager, Retirement Plan Advisors*

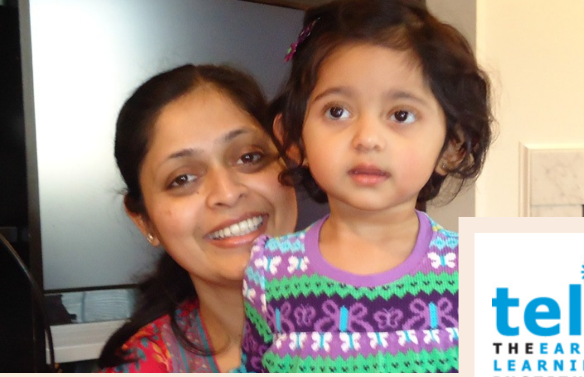
The 401(k) plan has long been one of the most popular ways for employees to save for retirement and build long-term wealth. Its popularity is due in large part to its tax advantages, employer contributions and automatic deductions from the employee's pay check each pay period. With the state of social security unknown and employer-sponsored defined benefit pension plans going away, it is more important than ever to take some time and start the retirement planning process. It is easy to save for your future self with a 401(k). But it is also easy to derail your savings plan with these five all too common mistakes.

1 **Waiting for a bigger salary:** Many people, especially younger employees, feel it is better to wait until they are earning higher incomes before saving in their retirement plan. Studies have shown that an employee saving just $100 per month at age 25 should have an account value of nearly double that of a 40-year-old saving $300 per month. So even by tripling the savings rate, the older employee will never make up for the 15 years of missed, compounded growth. The sooner you start saving, the better off you will be at retirement.

2 **Not saving enough:** Many employees only save enough to receive the maximum employer contribution. However, this usually will not be enough to fund an adequate retirement. The Department of Labor suggests trying to save at least 10 percent of your take home pay. With most employers matching only up to the first 3 percent of pay contributed by the employee, this only gets the employee to 6 percent of pay and leaves a 4 percent savings gap. If you are not able to save more to make up the gap, try to increase your contribution by 1 percent on Jan. 1 and then try to increase it 1 percent each year thereafter. Many employers now offer an auto escalation feature in their plans that will automatically increase your contribution each year.

3 **Taking a loan:** 401(k) loans can be a good thing for employees. You loan yourself money from your retirement account and pay yourself back at a stated rate of interest during the term of the loan. Taking a loan rather than a distribution allows you to avoid ordinary income tax and, for those employees under the age 59.5, the 10 percent excise tax, as long as the loan is paid back. However, be aware of the hidden costs of taking a loan from your retirement plan. You normally pay yourself back at prime plus 1 or 2 percent. If the market is returning 15 percent while your money is out of the market in the form of a loan and you are paying yourself back at 5 percent, the true cost of the loan is 10 percent, not 5 percent. Heads up if you terminate service with your employer while you still have a loan outstanding. Loan payments are made through payroll deduction. If you leave service with your employer, you typically have 90 days to pay off the outstanding loan. If you don't pay back the loan in full within the 90 days, it is then treated as a premature distribution from the plan for tax purposes. You will then be required to pay ordinary income taxes on the outstanding loan balance plus the 10 percent excise tax if you are under the age of 59.5. So beware. If you do take a loan from the plan, consider it as a fixed investment or one of your conservative investments in your portfolio and reallocate your portfolio accordingly.

4 **Putting your eggs in one company basket:** Employer-sponsored defined benefit pension plans that have gone away for many Americans were limited by federal regulations to investing only 10 percent in their own company stock. If you are in a plan that offers you the ability to invest in company stock, you should limit that investment to only 10 percent of your overall portfolio. Having just one stock for the majority of your portfolio is extremely risky. *(See "401(k) investors sue ENRON,"CNN Money http://cnnmon.ie/Zd0h6z)*
If your employer invests the employer matching contribution or profit sharing in employer stock, be sure to go in and diversify this money out of the company stock on a regular basis to maintain the 10 percent limit overall.



5 **Assuming your rights expire once you leave:** Even if you are no longer employed by the company that sponsored your retirement plan, you maintain the same rights under the plan as those employees who are still employed. All plan participants should receive and have the right to receive the Summary Plan Description. This document spells out all of the rights, provisions and features of the retirement plan in a simple and easy to understand format. This document will tell you when you can take a distribution, explain the vesting and the type of employer contributions into the plan. Another thing to note is the fees you are paying to keep your money in the plan. In August of 2012, the Department of Labor required all plan sponsors to disclose all fees and charges that each participant pays in the retirement plan. This information is normally made available on the retirement provider's website or can be obtained by contacting your employer. Understanding the plan and the fees you are paying is very important. Take the time to educate yourself on the elements of your plan and know your rights.

The 401(k) plan remains one of the best ways for the average American to build wealth and accumulate the assets needed to provide for an adequate and dignified retirement. However, many Americans spend more time planning their summer vacation than their long-term retirement plans. There are many features that make saving through your company-sponsored retirement plan easier than ever. Be mindful of the mistakes outlined here and you can feel confident you are on your way to securing a comfortable retirement for yourself. ■

# THE EARLY LEARNING INSTITUTE

*Dotti Bechtol*
*Fiduciary Asset Business Development Officer*

The Early Learning Institute was founded in 1958 as St. Peter's Child Development Centers at St. Peter's Episcopal Church in Brentwood, Pa. This pilot program was designed to provide parents of children with special needs an alternative to institutionalization. In 1994, St. Peter's Child Development Centers changed its name to The Early Learning Institute (teli) to reflect the expansion of services to include early intervention and supportive services.

teli currently provides the following programs to over 1,100 children each year:

- Early Intervention (EI) services and evaluations provided in the home for infants and toddlers ages birth to three across Allegheny and Washington Counties;
- Trainings for community-based providers;
- Early learning programs for children ages two to five; and
- Outpatient rehabilitation services for children aged three to young school age.

teli has 56 years of experience in providing therapeutic early intervention and inclusive early education programming and supports to children with special needs. In a field that is often characterized by high staff turnover, teli's strong focus on mission helps the agency to retain highly professional, dedicated staff. The average tenure of teli's staff is 13 years!

The highest praise for teli's work comes from the parents of the children they serve, as nearly 25 percent of teli's referrals are from other parents of teli alumni, friends or family members.

Nobel Prize winner James Heckman's work in economics, which has since been replicated by the RAND Corporation, provided strong evidence for the long-term financial and social benefits of early childhood programs that serve at-risk children. In one example, research found that when $12,356 was spent on a child to attend and receive high-quality early childhood learning experiences, that investment resulted in a $70,786 savings through reduced K-12 expenditures, higher adult earnings and reduced crime. Economists estimate a return on investment for high-quality, targeted early childhood education between $4 and $16 for every dollar invested (Knudsen, E., Heckman, J., Cameron, J & Shonkoff, J., 2006).

The average repeat rate for kindergarten is 5 percent. Assuming a 5 percent repeat rate on a district class of 300 children and an average expenditure per student of $10,000, this would cost the district $150,000 annually in kindergarten tuition costs. Without investments in early education and early intervention, taxpayers will bear the burden of additional expenditures later through higher special education costs, higher costs of grade repetition and lost aid as unprepared students become unsuccessful students and eventually some become dropouts.

Funding for early intervention continually faces reductions, and eligibility for the services has been modified, dramatically impacting the number of children who are able to access services. Despite these challenges, teli has continued to stand firmly behind its mission of providing support to children with developmental delays, believing in the possibility of every child. teli brings this mission to life through its work every day, and last year provided over $300,000 in charitable and unfunded care to children with developmental delays.

We at Fragasso are proud to have been selected by teli to manage their portfolio so that they can fulfill their mission and help children with developmental delays to reach their full potential. Like teli, we believe in the possibility of every child!

For additional information about teli, including resources for parents and caregivers, how to access services, or to make a donation, visit their website at: **www.telipa.org**

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*Start Your Engines ...*

## 2014 PITTSBURGH VINTAGE GRAND PRIX

*Jennae Backo*
*Coordinator, Marketing Operations*

The Pittsburgh Vintage Grand Prix (PVGP) is a tradition that has been a part of Pittsburgh for over 30 years. This free, 10-day event culminates with a 2.33 mile course race that runs through Schenley Park. Since it began in 1983, the PVGP has donated over $3.5 million to the Autism Society of Pittsburgh and Allegheny Valley School.

Fragasso is a proud fourth-year sponsor of the event. At a tent facing the Start/Finish line, we hosted over 100 clients and friends. Fragasso's own race car driver, Dotti Bechtol, raced in her yellow #55, Alfa Romeo Spyder Car. Dotti is our fiduciary asset business development officer. Her husband, John, also races. This was the Bechtols' 15th year racing at the PVGP. They also race at other venues in the United States and Canada.