



Everyone Needs a Plan

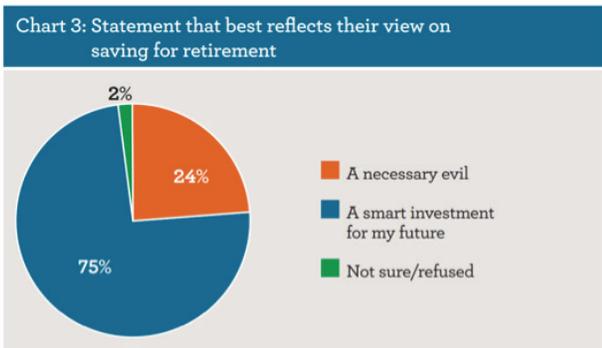
SYNOPSIS

- Wells Fargo recently conducted a survey indicating that most middle-class Americans have done very little to prepare for retirement.
- Although the majority of respondents agreed that saving for retirement is vital, most have next to no plan in place.
- A retirement account is not a comprehensive plan, but it's a good start. Use a 401(k) and/or IRA in conjunction with the help of an experienced financial advisor.

THE STATE OF RETIREMENT FOR THE MIDDLE CLASS

Wells Fargo recently published the results from their 2014 Middle Class Retirement Study, where they asked respondents about their views on saving for retirement and how well they are progressing towards their goals.

While 75% of middle-class Americans agree that saving for retirement is wise (see chart below), the actual amount being accumulated doesn't reflect this attitude.



Let's walk through three key findings within this report that should alarm anyone who currently has no plan for retirement.

The first key finding is that saving for retirement is really harder than it looks. The chart below shows that 72% of respondents say they should have started saving for retirement earlier, but also 55% of non-retirees plan to save later to make up for not saving now.

Chart 4: Percent agreeing (By age segment)

	Total	25-29	30-39	40-49	50-59	60-75
I plan to save for retirement later in order to make up for not saving enough now	55%	57%	56%	63%	50%	35%
I'm hoping to earn more money in the future to save enough for retirement	79%	94%	85%	89%	68%	54%

Chart 5: Start earlier to save for retirement

Percent agree	Total	25-29	30-39	40-49	50-59	60-75
I should have started saving for retirement earlier than I did	72%	57%	66%	83%	81%	75%

I speak to retirees daily who tell me their number fear in life is running out of money. Pensions are disappearing and social security won't cover everything (more on this subject later), so it's up to you to prepare for the future. Unfortunately, retirement planning is only getting more complicated, and trying to do so on your own is getting more difficult as each year passes.

The second key finding is that employer-sponsored retirement plans, such as a 401(k), are viewed as critical for middle-class Americans. The chart below shows that having access to a 401(k) correlates with having saved more towards the goal of a comfortable retirement.

Chart 9: Access to a 401(k) and retirement savings

	401(k) Available	401(k) NOT Available	Difference
Retirement savings goal (Median)	\$350,000	\$200,000	+150,000
Current retirement savings (Median)	\$30,000	\$3,000	+\$27,000
Percentage saved toward goal	9%	2%	+7 pts
Monthly retirement savings (Median)	\$250	\$0	+\$250
Percent with zero retirement savings	5%	37%	-32 pts



There are two important conclusions here:

1. Those who are offered a retirement savings plan have 10 times (\$30,000 vs. \$3,000) more saved than those who do not have access to a 401(k). Also they are 4.5 times closer to their retirement goal (9% vs. 2%).
2. The number of respondents who have nothing saved for retirement is 7 times larger (5% vs. 37%) for those who do not have access to a 401(k).

Simply put, those who are offered plans tend to use them and have at least something set aside for retirement. However, a retirement account and a retirement plan are two very different concepts, and neither of these cohorts should sleep well at night unless they have an actual plan.

The third key finding has to do with expectations around social security. The vast majority of respondents do not expect social security to be their primary source of income, and half would be willing to pay for some form of guaranteed income product.

Chart 10: Social Security as primary source of retirement funding

Percent disagree	Total	25-29	30-39	40-49	50-59	60-75
Social Security (Non-retiree) "will be" (Retiree) "is" the primary funding source for my retirement.	70%	87%	84%	72%	54%	42%

It's actually quite encouraging to see the majority accept the fact that social security is not going to cut it, and that the respondents are willing to accept professional help through the form of an income generating product.

However, the reality is that very few are actually doing what they say they should be doing, and the longer you wait to put a plan on paper and then execute said plan, the more risk you run of an under-funded retirement.

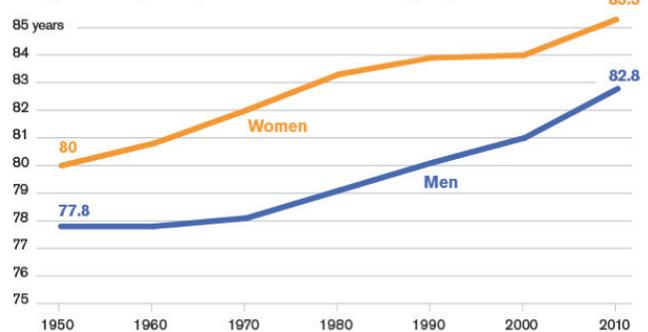
IMPLICATIONS FOR INVESTORS

Not only is the middle class woefully unprepared for retirement, the chart below shows another

developing trend, which will likely make matters even worse.

The Increasing Risk of Outliving Investments

Average total life expectancy for those who have reached age 65, in the U.S.



Source: The Centers for Disease Control

Bloomberg Visual Data

This chart shows the average life expectancy of men and women since the 1950s, and both are growing at a pretty fast pace. According to the Centers for Disease Control and Prevention (CDC), American men who reach age 65 will live another 17.8 years on average, while women will live 20.3 years.

Although this is a trend that arguably most are happy to see, it also represents an even greater hurdle for those in the middle class, particularly when the days of easy income are over and not returning for decades (think about what a bank CD yields right now).

People seek the advice of professionals to achieve all sorts of goals from losing weight to career improvement. Life altering plans are not easy to create, and they are certainly not easy to execute without the help of a professional.

But here's the thing about sticking to a retirement plan – it works. One last conclusion that I want to share with you from the survey is that having a written plan correlated with more successful savings.

The bottom line is that if you have been saving for retirement for decades, or if you have next to nothing accumulated, you need a plan. The first step should be to talk to an experienced professional who has demonstrated skills in



retirement planning because the risk is far too great to go at this alone.

The source for the charts and statistics above can be downloaded from Wells Fargo by clicking on the link below: <https://www08.wellsfargomedia.com/downloads/pdf/com/retirement-employee-benefits/insights/2014-retirement-study.pdf>

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Sorrentino", written in a cursive style.



Mike Sorrentino, CFA
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