

FOUNDATIONS

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THE MYSTICAL MILLION

“What do I have to do to retire and how much money will I need?” is the question I hear from clients, colleagues, friends, and family seemingly hundreds of times each year. I even ask myself the question frequently, as I constantly worry about saving enough money and investing appropriately to achieve a financially secure retirement nest egg.

A \$1 million nest egg has long been considered a general benchmark for a secure retirement. Assuming, as experts widely hold, that the average American spends 18 years in retirement, spends an average of \$57,311 per year¹, and will need to replace 70% - 90% of their annual income in retirement, the \$1 million mark actually starts to make sense.

Yet, the reality is that very few people even come close to that number. According to a study done by the Federal Reserve Bank of St. Louis, the median savings by ages 56-61 is only \$25,000. Furthermore, the top 20% of savers have acquired approximately \$320,000. Well done, but nowhere near the \$1 million target. In fact, you would have to save better than the top 10% of workers, at approximately \$855,000, to attain the asset level that is seemingly the baseline we need to hit. A difficult challenge, especially with only 70% of US civilian workers receiving access to medical and retirement benefits.

So how does the average US worker get to that mystical \$1 million figure?

Some have a significantly better chance of success than others based upon the fringe benefits and retirement plans established for them. As of March 2017, 94% of union workers had access to both employer-sponsored medical care and retirement benefits.

Union construction trades' long-standing support and operation of defined benefit pension plans, now typically coupled with defined contribution annuity fund plans, have almost ensured their member's success from day one. Let's take a very basic look at these two plans for a member working 30 years or more.

Example 1: Annuity Fund

Contributions for many annuity funds that I work with are typically between \$2 - \$4 per hour worked. In this example, we used an average of \$3 as the annual contribution rate, and 2,000 hours worked per year for 30 years. Assuming the annuity fund is also invested very conservatively and achieves an average rate of return of 6.36%², the resulting fund for this member will be approximately \$469,643 at the end of the 30th year. Just like that this member is already at the top quartile or better of retirement savers.

Example 2: Pension Plan

Additionally, let's consider the significant benefit provided by a union's pension plan. From my experience, depending on the skilled trade, a full retirement credited pension could be between \$25,000 and \$50,000 per year, or in many cases much higher than that. As an example, if the member earned a pension payout of \$40,000 a year in retirement and lived 20 years into retirement (\$40,000 per year x 20 years), this \$800,000 essentially becomes nest egg #2 for the member in retirement. That number is near the top 10% of

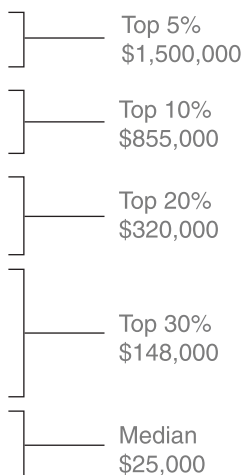
retirement savings balances for people in their late 50s to early 60s. This tremendous benefit can guarantee a secure retirement if retained over the life of the member. Moreover, the two funds added together (without taking into consideration Social Security payments, personal savings, and supplemental retirement savings) will provide a foundation to achieve that mythological \$1 million number by way of their union and employer-sponsored benefit plans.

Union construction trades have always placed member retirement benefits at a premium to protect and provide for their members. Now, as we look back at decades of private sector growth, anti-union trends and legislation, and the death of the company-sponsored pension plan, is it any mystery why the American retirement crisis is at critical mass today?

Union construction trades' benefit plans and fringe benefit packages are one of the most important values a union adds, especially compared to the general work force. It's these very organizations that have battled to survive the tremendous challenges of scrutiny and "cheaper" competition. Perhaps now, as a country, we will recognize the significance of union trades and the benefits they fight to provide their members.

Given the skilled trades shortage currently faced in the US, learning a trade and joining a union should be an attractive opportunity for younger workers, especially those worried about their retirement. The rest of us will just have to figure it out on our own.

How Your Benefits Stack Up



Union construction trades' benefit plans and fringe benefit packages are one of the most important values a union adds.

— Aaron T. McGreevy,
CRPS®, AAMS®
Managing Director,
Taft-Hartley Services




The background of the entire image is a grayscale photograph showing the silhouettes of two people, likely a man and a woman, standing in front of a large window. They are looking out at a city skyline with various buildings and a street lamp visible in the distance. The lighting is soft, creating a contemplative mood.

RETIRE ANX

Retirement
Readiness is

About More

Than Money



REMENT LITY

Chances are you have thought about what you would like your retirement to look like—a little travel, entertainment, golf, fun with the grandchildren—but, have you really thought about what retirement means?

A word of caution: It may not be as easy as it sounds.

The reality is that the retirement transition may present one of the most significant changes in your life—emotionally, psychologically, socially, and financially. For example, many clients in early retirement express concern and anxiety over the transition from earner/saver to spender. Even if you continue to consult or work part-time, in all likelihood, you will start spending your savings in retirement. This can be

disconcerting, especially since you spent the last 30 years saving that money. It is important to understand your spending needs so that you develop appropriate investment objectives that can support spending throughout retirement. Part of our planning mission is to help you connect your assets and spending needs to your retirement planning goals.

Another is to develop a plan for that spending so you get real value out of lifestyle choices, social and family connections, and other early retirement activities. This helps reduce spending anxiety and hopefully makes the retirement transition enjoyable.

Ideally, you will start to focus on these issues in the 3 to 5 years before retirement.

The rankings of each consideration in the accompanying list isn't accidental. Retirement marks a significant transition in life which is more than changing your income streams and updating your financial plan. While good financial planning is critical to

retirement, we do recommend that you give equal thought to the emotional, psychological, and social aspects of retirement so that you have a solid framework for this new phase of your life.

PRE-RETIREMENT PLANNING CONSIDERATIONS

1

LIFESTYLE

Do you know what you want to do in retirement? For example, travel, work part time, volunteer, learn something new, hobbies, etc.? If you are not exactly sure what you want to do, start a list and investigate your interests.

2

SOCIAL & FAMILY CONNECTIONS

Think of the people you want to remain connected with after retirement, or want to see more often, and plan to see them. Strengthening these social networks is crucial in early retirement.

3

HEALTH & HEALTH CARE

Are you maintaining good health? Does retirement present an opportunity to make improvements? Have you examined your level of health care benefits?

5

LIFE INSURANCE

If you are no longer working, you may lose certain employer insurance benefits. Now is the time to determine if you need the coverage.

4


FINANCIAL & TAX PLANNING

Now is the time to consider consolidating assets, developing a spending and tax plan, reviewing social security, pensions and other non-investment income, reviewing asset allocation, and investment objectives.

6

ESTATE PLANNING

Review your estate plan (wills & trusts, power of attorney & health care proxies) and beneficiary designations to confirm they are up-to-date and meet your goals.



You do all the
heavy lifting.
Let us pick up
the tab.

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& Napier Cocktail
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When talking to our clients about retirement planning, we often describe it in terms of four general stages: pre-retirement years (ages 50-65), early retirement years (ages 60-75), middle retirement years (ages 75-85), and late retirement years (ages 85-100). While the ages associated with these stages may differ for union workers, it's important to remember that as you make your way through these stages, your priorities, personal goals, and investment objectives may change. While many people take a "set it and forget it" approach with their retirement planning, it is vital to monitor your financial plan—portfolio management, asset allocation, health and life insurance, and estate plan—to make updates where appropriate.

Secure a Spending Plan

Your spending plan is perhaps the most significant factor in your financial plan. Understanding and prioritizing expenses will help to determine what you need from your portfolio over your lifetime. Retirement planning tools specifically can help identify a minimum return requirement based on your spending needs. From there, we can build an investment portfolio to target your needs while also managing risk in the market.

Creating Spending Plans The Ag



g A g n For es

Risk should be viewed from the perspective of both tolerance and capacity. Risk tolerance is the risk of loss you are willing to accept, and risk capacity is the capital loss that you can experience without substantially changing your lifestyle. Sometimes, there is a significant difference between the two. This difference needs to be explored so that your investment portfolio is managed to the appropriate risk level.

If your minimum return requires more risk than you are willing to accept, then your spending plan needs to be reassessed to coordinate the size of your nest egg and your risk tolerance. It's also important to evaluate your household spending to determine how much is tied to fixed expenses and how much is truly discretionary spending. This knowledge can provide you with a greater sense of control

when navigating unpredictability in the market. Likewise, developing an accurate, well-thought out spending plan is a crucial step to inform your asset allocation and portfolio management decisions.

Address Your Asset Allocation

Asset allocation refers to the mix of investments in your portfolio (i.e., stocks vs. bonds). This decision will be influenced by your spending needs, age, and risk tolerance, and is an important part of meeting your investment goals. In fact, studies have shown that more than 90% of the variability in a portfolio's return can be attributed to asset allocation¹.

Generally speaking, stocks are relatively riskier investments, and often more appropriate for a younger investor with a longer time horizon. Fixed income vehicles, like bonds, have

“ Your spending plan is perhaps the most significant factor in your financial plan. ”



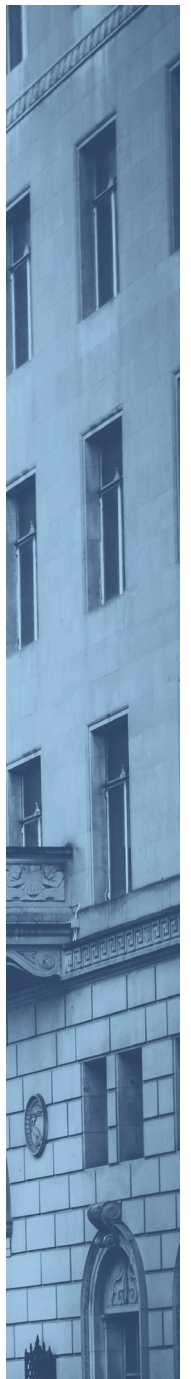
historically been safer, so an older investor may choose to allocate more of his or her portfolio to fixed income. A fairly common asset allocation guideline is to subtract your age from 100 and use the difference as your allocation to stocks. For example, if you are 50 years old, you would subtract 50 from 100 resulting in an equity (stock) allocation of 50%. More recently, perhaps due to the low interest rate environment, a new version of this formula has gained popularity: hold 120 minus age in stocks.

While both of these methods may provide general ballpark targets, neither tie back to your specific spending needs, income sources, personal goals, or risk capacity. They are completely impersonal and lack the planning required to meet your unique needs. They do not account for changing market conditions and leave all of the asset management/rebalancing decisions to the individual investor. This opens the door to decisions aimed at timing the market or waiting it out in areas that can impact long-term success. Finally, these targets do not address diversification (i.e., not putting all of your eggs in one basket).

It's important to develop an active asset allocation strategy that adjusts your portfolio as market conditions change. Utilizing a somewhat passive asset allocation strategy can be appropriate when you are young—you still have time to save and time to ride out potential market downturns. However, there is greater risk associated with sticking to general asset allocation targets when you are living off of your nest egg and no longer adding to your portfolio.

Perfect Your Portfolio Management

Pre-retirement or early retirement is an ideal time to make adjustments to ensure your investment decisions align with your retirement goals. The decision-making process, however, can become much more complicated when you consider the structure of the portfolio that you have accumulated over your working years. Each individual pool of assets, whether tax-



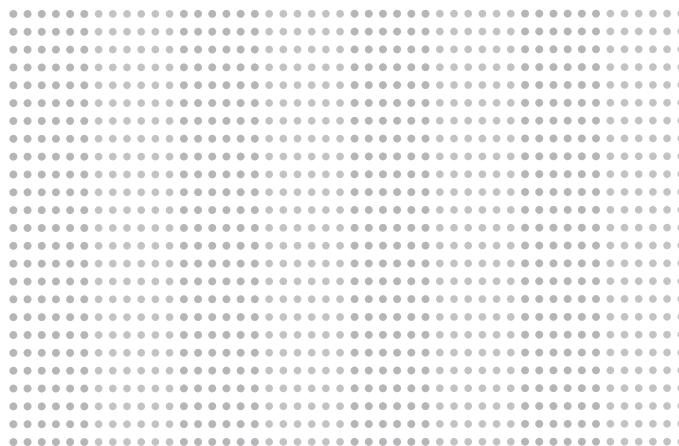
deferred retirement assets, personal taxable money, or Roth IRAs, should be evaluated and invested appropriately. For instance, a taxable investment portfolio that is used for ongoing expenses may be invested under an approach that primarily provides income and reduces risk, while an IRA not facing near-term withdrawals may be invested under a more growth-oriented approach that can generally withstand greater volatility.

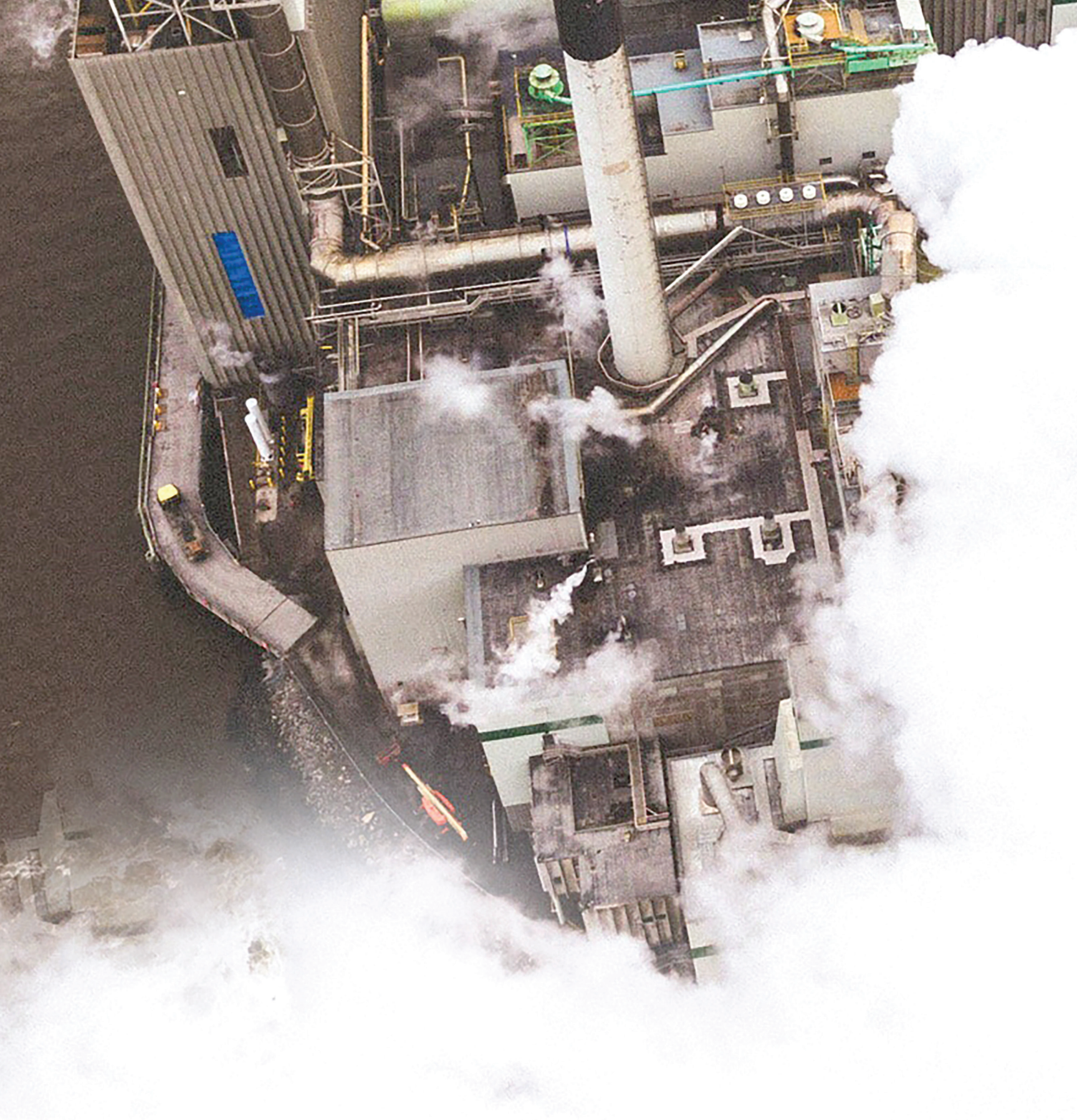
Additionally, active investment management should be a key component of a retiree's investment approach. Active management provides the flexibility to move in and out of certain areas of the market when risks develop. The long bull market we've experienced can cause many people to think about specific investments or sectors to own. However, it's not necessarily what you own, but what you don't own that can result in a successful investment approach throughout retirement (for example, not owning technology stocks in 2000-2002 or financial stocks in 2008).

Focus on the Future

There are plenty of retirement planning guidelines available and healthy academic debates to be had, but at the end of the day you only get one shot at retirement. There is real value in seeking out professional investment management and planning advice to address your total financial, retirement, insurance, tax, and estate planning needs. Proper planning can keep you on the right path and guide you through an enjoyable retirement with peace of mind.

“ At the end of the day you only get one shot at retirement. ”





**WHAT GOES
MUST COME DOWN**



With little exception, investors have enjoyed several years of strong investment returns. In fact, the current bull market that began in early 2009 now registers as one of the longest and strongest bull markets in history. Over this nearly decade long run, investors have shifted their dollars away from actively managed strategies into investment products that utilize passive management.

The Decade of Passive Investment

There are many reasons for the recent migration to passive investing. Specifically, individual stock prices have moved alongside each other over much of the past decade, and market sectors have been similarly priced. This was not an environment conducive to active managers.

After all, when things are working well, the need for advice and management is lessened. As the chart on the next page shows, cyclical factors have weighed on active managers during the current bull market, leading active management strategies to generally underperform indices.

The Cyclicalality of Active Management

It now appears, however, that the tide may be turning for active managers. Stock prices are moving more independently of the overall market, sectors of the equity market are now priced differently from one another, and investors are pricing assets based on risks that are specific to each company.

These shifts create a more favorable environment for active managers to uncover company-specific opportunities and also manage risk. This is exhibited in the chart on the next page, which shows a rebound in active manager performance since it bottomed in late 2016.

In addition to cyclical factors, recent indications suggest that the current bull market is inching closer toward the next downturn. Labor markets are strong, wages continue to firm, the economy is generally healthy, and inflation pressures are building. Consumers are feeling more confident than they have since the economic boom of the late-1990s/early-2000s. These are all signs of an economy and market that is closer to the peak.

UP
WN

Replace Complacency with Conviction

As famous value investors Benjamin Graham and David Dodd once said, "The longer the bull market lasts the more severely investors will be affected with amnesia; after five years or so, many people no longer believe that bear markets are possible."

Yet not only are bear markets possible, they are probable, and they can be very painful for individuals who are not prepared for them. This includes investors who are heavily exposed to passive investment products, which offer no risk management function.

The simple truth is, it doesn't matter how much you make if you risk losing it all when the market takes a dip. Truly active management, when done correctly, adds value in a market downturn by protecting your assets.

As an active investment manager, we are always monitoring environmental risks. Trade tensions, high stock prices, and central bank policy are just a few of the areas we're watching closely in 2018. Our active investment approach allows us to be flexible as we analyze these types of risks. The ability to adjust a portfolio to a given market environment helps balance the conflicting goals of managing risk and finding opportunity in pursuit of better member outcomes.

As the financial world moves toward this new, more challenging future, we stand firm in our belief that now is the time to employ a truly active approach.

Actively Managed Strategies:

Strategies in which investment managers rely on their own research and forecasts to make buy and sell decisions. Based on the belief that a professionally managed investment portfolio can outperform the market.

Passive Strategies:

Seek to mirror a stock market index (e.g., S&P 500). Based on the Efficient Market Hypothesis, which states that the market cannot be beaten by an individual over the long term.

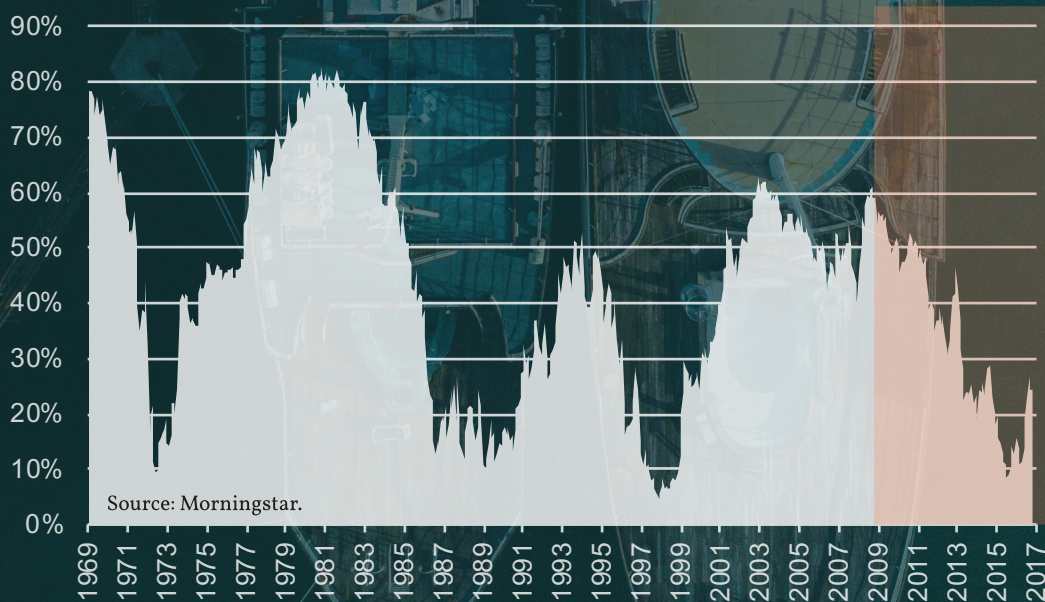
Bull market:

A period of rising stock prices.

Bear market:

A period of falling stock prices typically marked by a 20% downturn or more over at least a two-month timeframe.

ACTIVE MANAGER PERFORMANCE IS REBOUNDED



A Goal Without a Plan is Just a Wish

Manning & Napier's Member Services

Planning for the future can be overwhelming, but it doesn't have to be. Regardless of your age or stage in life, our Taft-Hartley Service Team can work with you to develop a customized & comprehensive financial plan to help you reach your goals.

Financial Management

Retirement Planning

Investment Basics

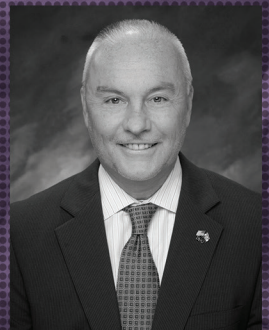
Estate & Tax Planning

Please feel free to reach out to a member of our Taft-Hartley Service Team for additional information. They can be reached toll-free at (800) 551-0224

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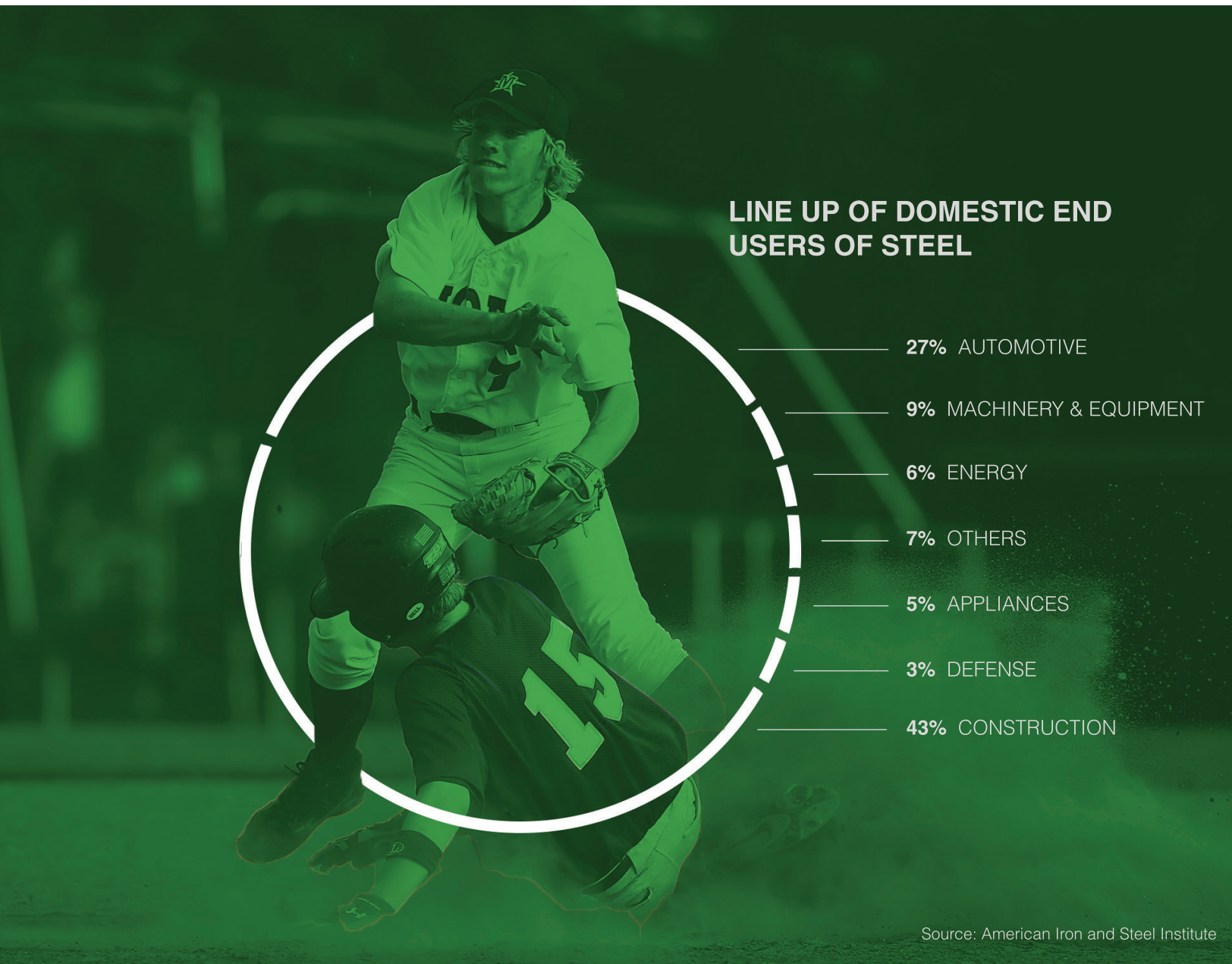
“ Tariffs make it more likely that domestic steel and aluminum users buy American. ”

For years, China has been accused of dumping cheap steel onto global markets. The country has roughly 10 times the steelmaking capacity of the US, and in recent years has produced far more steel than the world needs.

The Trump administration has pushed Chinese leaders to cut production and take some pressure off of US steel mills. The efforts were to no avail, and the administration has now resorted to tariffs on steel and aluminum imports. The controversial tariffs (25% on steel and 10% on aluminum) were formally enacted on June 1 with a few notable exceptions.

Canada, Mexico, and the European Union were among the countries granted relief while the US pursued negotiations. Despite this, each immediately announced plans to retaliate with their own tariffs against various American products such as yogurt, bourbon, and motorcycles.

President Trump justified the tariffs in the name of national security, leveraging a trade law provision that had otherwise not been used in more than 30 years. By invoking the provision, the White House is attempting to circumvent World Trade Organization



(WTO) rules. Using the rule also opens the door to potentially using similar national security provisions on other trade concerns, such as China's theft of US intellectual property.

Despite the controversy, there is historical precedent for steel import restrictions. In 1984, the Reagan administration restricted steel import trading rights via a series of bilateral trade agreements; and in 2002, the Bush administration imposed outright tariffs ranging from 8% to 30% on steel products. The Bush tariffs were ultimately withdrawn after an adverse WTO ruling and European Union (EU) retaliatory threats against US cars and Florida oranges.

US steel and aluminum producers view the tariffs favorably, as they would be a boon for their industry. Labor unions have also spoken in favor of the tariffs. "The admin[istration]'s steel & aluminum tariffs are good steps towards fixing predatory

practices that hurt workers & cheat companies that produce in US," tweeted Richard Trumka, president of the AFL-CIO.

Conversely, foreign producers of steel and aluminum stand to lose as they will see decreased demand from a key market. The US is currently the largest importer of steel and aluminum in the world, and tariffs make it more likely that domestic steel and aluminum users buy American.

Of those domestic users, however, US-based steel- and aluminum-consuming companies will be negatively impacted. Rising metal prices and decreased competition will increase input costs for these businesses. The chart on the previous page highlights some of those most negatively impacted.

Businesses that have the ability to pass along those rising input costs to customers may hold up better. For example, domestic producers of specialized products including rebar, electric steel, engineered aluminum, and others may benefit.

As indicated in the table below, we see the tariffs having the potential to create winners and losers in various industries. As an active investment manager, we also continue to monitor broader economic effects from any retaliatory measures.

“ Despite the controversy, there is historical precedent for steel import restrictions. ”



THE WINNERS AND LOSERS

TYPE OF COMPANY	IMPACT	REASON
Domestic Producers Generic Products	Positive	Rising prices and decreased competition
Domestic Producers Specialized Products	Even More Positive	Rising prices and decreased competition; able to pass along higher input costs to customers
Domestic Users	Negative	Higher input costs
Foreign Producers	Negative	Lower demand



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Page 4 and 5

Sources: Federal Reserve Bank of St. Louis., US Bureau of Labor Statistics, US Census Bureau.

¹ Based on 2016 data from the US Bureau of Labor Statistics.
<https://www.bls.gov/news.release/cesan.nr0.htm>

² Source: Morningstar. Analysis: Manning & Napier. Based on the annual rate of return of an investment portfolio with a 20% allocation to the S&P 500 Index and a 80% allocation to the Ibbotson Associates SBBI U.S. Intermediate-Term Government Bond Index from 01/01/1926 - 06/30/2018.

The S&P 500 Index is an unmanaged, capitalization-weighted measure comprised of 500 leading U.S. companies to gauge U.S. large cap equities. The Index returns do not reflect any fees or expenses. The Index includes dividends, but not the reinvestment of dividends. Index returns provided by Bloomberg. S&P Dow Jones Indices LLC, a subsidiary of the McGraw Hill Financial, Inc., is the publisher of various index based data products and services and has licensed certain of its products and services for use by Manning & Napier. All such content Copyright © 2018 by S&P Dow Jones Indices LLC and/or its affiliates. All rights reserved. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none of these parties shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.

The Ibbotson Associates SBBI U.S. Intermediate-Term Government Bond Index is an unmanaged index representing the U.S. intermediate-term government bond market. The index is constructed as a one bond portfolio consisting of the shortest-term non-callable government bond with no less than 5 years to maturity. The Index returns do not reflect any fees or expenses. Index returns provided by Morningstar.

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¹ As an example, "Determinants of Portfolio Performance II, An Update" published in the May-June 1991 issue of Financial Analysts Journal.

Page 16

The chart shows the percentage of US active equity mutual funds outperforming the total return of the S&P 500 based on trailing five-year performance after fees. Universe includes all active US domiciled open end mutual funds with a Morningstar Institutional Category of Large Blend, Large Growth, or Large Value. The oldest available share class of each fund was used. Includes both surviving and non-surviving funds. Past performance does not guarantee future results.



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