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Money Matter\$



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Facing the Retirement Pension Puzzle

by Joyce Pereira

"If you're fortunate enough to be among the 29% of Americans with a company-funded pension, you probably have to make a one-time, irrevocable decision on how you want to receive your benefits." – from Fidelity Viewpoints 6/19/2013

A common question we are asked from those finally reaching retirement is which payout option do I choose? The options usually include lump sum payout, lifetime income or term certain. A lump sum payout is fairly easy to understand ... you are paid a lump sum and sent out the door. But now what do you do with it? If you don't move it to an IRA, be prepared for a huge tax consequence. If you move it to an IRA, how will you invest it?

A lifetime income (or single life pension) is also fairly straightforward. You are entitled to a predetermined amount of money for the rest of your life. However, there are more questions to consider. Does the amount increase with inflation? What if I get hit by a bus tomorrow ... does my money go to my heirs? What if I need a large sum of money down the road?

The last option often called term certain (or joint and survivor pension) allows for monthly cash income for you and your spouse. This solves the question of how will my spouse survive, but pension plans providing for two lives will cause the

amount you receive to be significantly decreased. Will the income be enough to meet your needs?

So it's good to take these options seriously. Having a plan goes a long ways. How much do you spend now? Do you have any debt? Are you planning to spend more or less in retirement? Are you in good health? Do you have longevity in your family history? What are your goals (spend my whole retirement), objectives (help pay for grandkids education), and risk tolerance (protect my principal)? Where do you want to live, and what is the cost of living there?

Besides evaluating your needs, consider the nature of the pension plan. Does it offer an annual COLA (Cost-of-Living Adjustment)? How does the plan handle survivorship needs? If you have a federal pension, will you be able to collect Social Security/Medicare?

If all this sounds overwhelming to you, you aren't alone. Sommers Financial can help; or find an advisor that you like and trust, someone who is knowledgeable and responsive. There is not going to be a perfect answer because we don't have the crystal ball to know how long you will live or what a gallon of milk will cost 10 years from now. Warren Buffet says, "It is better to be approximately right than precisely wrong."

ETF Extra – Vanguard High Dividend Yield ETF–(VYM)

We have long been big fans of Vanguard's low-cost, passive approach to fund management, and use many of their Exchange-Traded Funds in our client portfolios. We use this ETF in the stock allocation (bucket) for our clients that require income from their investment portfolio. VYM seeks to track the performance of the FTSE High Dividend Yield Index, and uses a full index-replication approach. VYM consists of large capitalization stocks with a history of above average dividend yields. The Fund has extremely low expenses that help minimize index tracking error.

VYM's Notable Statistics

Current price/share:	\$66.91
Wtd. Avg. Dividend Yield:	2.78 %
Total Assets in the Fund:	\$12.2 Bil.
Expense Ratio:	0.10 %
Five Year Annualized Return:	19.5 %



3-Year Avg. Returns

Dow Jones Industrial 30	
Average:	10.7 %
S&P 500 Large Company Stock Index:	14.1 %
Russell Small Company Stock Index:	13.0 %
SPDR Gold Index (GLD):	- 7.0 %
iShares Aggregate Bond Index:	3.6 %
US Equity High Volatility Put-Write ETF (1 year ROR):	9.6 %
SFM's "NAKED ALPHA FUND":	14.7 %



Model STOCK Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
21%	VYM	Vanguard High Dividend Stock ETF	2.78%	17.69%	15.33%	9.95%
20%	VWO	Vanguard Emerging Market Stock ETF	2.87%	-3.70%	-4.41%	20.09%
20%	SDY	SPDRs S&P High Yield Dividend Aristocrat ETF	2.21%	15.57%	14.35%	10.38%
19%	VIG	Vanguard Dividend Appreciation ETF	1.88%	16.07%	12.21%	10.90%
20%	VT	Vanguard World Stock ETF	2.32%	14.87%	7.62%	14.92%

INCOME-oriented portfolio—average current yield: 3.3%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
24%	DEM	WisdomTree Emerging Market Dividend Stock ETF	4.33%	-7.65%	-4.74%	16.68%
18%	VWO	Vanguard Emerging Market Stock ETF	2.87%	-3.70%	-4.41%	20.09%
24%	VYM	Vanguard High Dividend Yield Stock ETF	2.78%	17.69%	15.44%	9.95%
18%	QDEF	FlexShares Quality Defensive Dividend ETF	3.29%	17.38%	N/A	N/A
16%	VEU	Vanguard International Stock ETF	3.15%	9.83%	2.83%	17.28%



Model BOND Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
19%	LQD	iShares Investment Grade Corp. Bond ETF	3.65%	0.33%	6.48%	5.48%
20%	MUB	iShares National Municipal Bond ETF	2.94%	-0.11%	5.17%	4.35%
21%	BSV	Vanguard Short-Term Bond ETF	1.14%	0.28%	1.60%	1.31%
20%	BND	Vanguard Total Bond Market ETF	2.53%	-0.39%	3.48%	2.91%
20%	BASIX	BlackRock Strategic Income Fund	2.13%	2.79%	3.98%	2.88%

INCOME-oriented portfolio—average current yield: 5.8%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
20%	PCY	PowerShares Emerging Market Bond ETF	4.42%	-1.42%	7.10%	9.24%
22%	JNK	SPDRs High Yield Bond ETF	5.85%	5.14%	7.58%	7.87%
18%	CSI	Cutwater Select Income Closed-End Fund (CEF)	5.40%	3.39%	8.45%	4.69%
22%	OOSYX	Oppenheimer Senior Floating Rate Note Fund	4.81%	4.15%	4.92%	3.45%
18%	CHY	Calamos Convertible & High Yield Bond CEF	8.39%	15.98%	10.57%	8.31%



Model ALTERNATIVE Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
19%	RYMSX	Guggenheim Multi-Hedge Strategy Fund	0.00%	-0.09%	1.43%	2.46%
21%	PFF	iShares Preferred Stock ETF	6.53%	3.70%	6.07%	7.41%
21%	PAUDX	PIMCO All-Asset, All-Authority Fund	5.02%	-1.15%	4.39%	9.12%
20%	MLPEX	Oppenheimer SteelPath Oil & Gas Pipeline Fund	5.53%	13.82%	10.64%	8.80%
19%	VNQ	Vanguard U.S. Real Estate ETF	2.79%	0.93%	9.73%	16.57%

INCOME-oriented portfolio—average current yield: 6.2%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
24%	PFF	iShares Preferred Stock ETF	6.53%	3.70%	6.07%	7.41%
21%	PAUDX	PIMCO All-Asset, All-Authority Fund	5.02%	-1.15%	4.39%	9.12%
19%	YYY	YieldShares Closed-End Fund Opportunity ETF	8.68%	11.41%	N/A	N/A
16%	CVY	Guggenheim Multi-Asset Income ETF	5.08%	10.74%	10.85%	11.02%
20%	MLPEX	Oppenheimer SteelPath Oil & Gas Pipeline Fund	5.53%	13.82%	10.64%	8.80%