OAKTREE
FINANCIAL ADVISORS, INC.

Independent, Objective Advice

Investment & Retirement Rx

A newsletter for Eli Lilly employees and retirees

3rd Quarter 2019

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Goals, a plan, and only then a portfolio

We often meet with prospective clients who have not clearly defined their goals, do not have a financial plan, but are very focused on their investments.

It is our belief that these individuals need professional help. Unfortunately, many wait until retirement is nearing before seeking that help. In some cases, by that time, it is just too late to effectively meet all their financial goals.

Some questions to ask yourself.

1. Do you have clearly defined financial goals?
   - Retirement goals
   - Education savings goals
   - Life goals – such as passing on an inheritance or charitable giving
2. Have you made specific financial plans to accomplish your goals?
   - Do you know how much you will need to accumulate to successfully fund your goals?
   - Are you using the pretax or Roth contribution option in your Lilly 401(k)?
   - How will inflation and taxes impact you?
3. Do you have a well-defined, disciplined investment strategy, or just a variety of investments that you have accumulated over the years?

Only after you have decided on your goals and crafted a plan, can you design a portfolio as a long-term means of funding those future goals.

Planning helps bring clarity to what your money is going to do for you and your family. You need to regularly review the plan and your progress to ensure you stay on track.

What is risk?

Real risk is not having a plan to increase your income during retirement, because during a normal retirement your income needs may very well triple due to inflation.

The real long-term risk of stocks is not owning them.

Most people underestimate this risk.

Check your beneficiaries

Beneficiary designations on IRAs, 401(k)s and life insurance are often overlooked. They are established at the time you open the account and then typcially forgotten. It's important to periodically review them. Not doing so can cause unintended consequences like increased income taxes and money being inherited by someone other than who you had planned.

For example, let's say you got divorced five years ago and updated your beneficiaries on your Lilly 401(k) at that time to your kids. You got remarried and you want to leave your kids as the beneficiaries. Since the kids were already the named beneficiaries you assume that you can just leave it as is. Not true. In the Lilly 401(k), in most cases, your new spouse will be the beneficiary unless you name a different beneficiary with your new spouse's consent. In this example, your kids from your first marriage would end up with nothing, which is not your intent.

Here is an example of an overlooked beneficiary designation from a recent meeting. The husband's Lilly 401(k) beneficiary was his wife - no problem there. His contingent beneficiary was his oldest son. The problem was that he had three other sons after making the original beneficiary designation and they were never added. He has since updated his contingent beneficiaries to include all his sons, but had we not checked it, who knows how long it would have gone unnoticed, or if it would have ever been corrected.

If he had died and his wife was still living, she would have inherited the 401(k) without any problem. But if he and his wife died at the same time, say in a car accident, they would look to the contingent beneficiary, which would leave the entire 401(k) to just the one son. The other three sons would have received nothing from the 401(k).

Errors like this are easily preventable. Make sure you're checking your beneficiaries.

What did you do during the Lilly Summer Shutdown?

Imagine what retirement might be like when that week off for summer shutdown continues. There is no going back to work on Monday. Now imagine there is no paycheck coming in twice a month either. How will you pay for everything? You'll have your Lilly pension and Social Security, but for many, that's not enough.

The decisions you make today will determine how much money you'll have when there are no more paychecks coming in. The biggest determinants will be how much you have saved and how early you saved it.

If you are not already contributing the maximum to your 401(k), increase your contribution. If the increase doesn't get you to the maximum, elect the auto escalation option which will automatically increase your 401(k) contribution each year. Consider contributing to the Roth 401(k) as this will increase the flexibility of your distribution planning and could end up reducing your taxes in the future.

Consider how your investments are allocated. Make sure your allocation is in line with your long-term goals. Stocks have historically grown more than bonds. Do not be shaken by the short-term fluctuations of stocks.

Save early, save often. Plan now, update your plan, and stick to your plan.

Can I afford to retire?

Not sure? The Oaktree Independent Professional Retirement Overview (IPRO) can help. We can help you determine if you can maintain your lifestyle throughout retirement based on an early retirement, a full retirement, or anywhere in between.

There are many factors to consider other than just your pension. Oaktree Financial Advisors has developed the IPRO, a customized retirement analysis that takes into account your specific Lilly benefit programs. It is designed to help employees plan for retirement before they decide to retire. It's part of our effort to make your retirement preparation and transition as smooth and successful as possible.

To request your free IPRO simply visit our website at www.oaktreeadvisors.com. Once there, click on the Contact link and fill out the form. Select IPRO in the "I'm interested in" box then click Submit. You can also call our office at 317-818-1631 or toll-free at 1-877-901-1631.

Did you come to Lilly from another company?

In biotech and pharmaceuticals, the average tenure is 12.7 years according to a study by Glassdoor. Many people change jobs during their career at least once.

Recently we met with someone who left their 401(k) at their old employer when they moved on to a new job four years ago. It's not the worst thing that could happen, but they could have improved things. The old 401(k) only has five investment options, other than company stock and some target date funds.

This person had 50% of their money in company stock. The stock has seen very little gain over the last four years. Hindsight is 20/20 so it's easy to be critical of it now, but this is an example of why too much in company stock is not a good idea.

Many job changers leave 401(k)s behind while there are potentially better options for that money. If this sounds like you, take some time to consider your options for the 401(k)s you've left in previous employer plans. You can leave it, move it to your new company's 401(k), take a lump sum withdrawal or move it to an IRA. What's best for you will depend on your situation.

Life is busy and you're probably not that interested in dealing with it. You're probably not sure what you should do with it when you change jobs. But you worked hard for that money and you should make the most of it. Seeking professional help is a good investment in your future.

Lilly stock in your 401(k)? There is a tax break you may want to look into

If you have Lilly stock in your 401(k) that has significantly increased in value, you may want to consider net unrealized appreciation (NUA). NUA is an opportunity to convert unrealized gains from ordinary income tax rates to lower long-term capital gains.

NUA is the difference between the current value of the stock and the cost of the stock. You can find these values on the Lilly Benefits Center website in the 401(k) section under Account Statement. In the Account Activity by Fund section under Eli Lilly Common Stock Fund, you'll see Closing Balance and Stock Cost.

Under the NUA tax rules, if you are separated from service or over age 59½, you can withdraw the stock from the 401(k) and pay ordinary income tax on the cost, not on the value of the shares. When you sell those shares, you will pay tax on the gain at the capital gains rate. While the capital gains rate can vary depending on your taxable income, in every case it is lower than your ordinary income tax rate.

This strategy may not be for everyone, and there are certain criteria you must meet to qualify, but if you have a sizable amount of Lilly stock in your 401(k) with significant appreciation you should consider if it might make sense for you.

What the SECURE Act could mean for IRAs

In May 2019, the U.S. House of Representatives passed legislation called the Setting Every Community Up for Retirement Enhancement (SECURE) Act. Among the different provisions in the act are changes to legislation that could affect IRAs. It should be noted that although the bill was passed by the House of Representatives, it must be passed by the U.S. Senate as well. Detailed below are the provisions that could affect IRA owners and taxpayers who inherit an IRA, if the legislation is passed.

RMD age increase

The age that IRA owners must begin taking their RMDs would increase from 70½ to 72.

Contribution age repeal

Traditional IRA contributions would no longer be prohibited at age 70½.

No more stretch IRAs

Non-spouse beneficiaries of IRAs would no longer be able to take RMDs over their own life expectancy. Instead, they would be required to deplete the inherited balance within 10 years of the decedent's death. Some exceptions to the 10-year requirement would include those beneficiaries who are surviving spouses, chronically ill, disabled, and minors, as well as those individuals less than 10 years younger than the decedent. This will cause significant tax implications for pretax balances.

Penalty exception for birth or adoption

The legislation would allow for penalty-free withdrawals up to $5,000 for parents paying for expenses related to the birth of a child or adoption.

Stay tuned!

If any of the above provisions are passed, they will likely not go into effect until after 2019 but will require some additional planning.

Workshop for Lilly employees & retirees

Details on our next workshop for Lilly employees and retirees are as follows:

Tuesday, September 17, 2019

5:30pm – 6:45pm (dinner from Iaria's to follow)

The Alley Training & Events Center

325 S. College Ave, Indianapolis

Reservations are required as seating is limited. Visit www.oaktreeadvisors.com/workshops or call our automated reservation line at 317-708-7655 for reservations.

The purpose of our workshops is two-fold. First, we schedule these events to provide valuable information on financial matters important to Lilly employees. Second, the workshops provide a relaxed atmosphere to learn more about Oaktree Financial Advisors, our philosophies, and how our knowledge of the Lilly Benefit programs and specialty of helping Lilly employees and retirees can be of benefit.

The workshop is for Lilly employees, retirees, and their guests. It is free and informational only. There will be no sales presentation. We will provide independent, objective financial advice.

Since our founding…

In the nearly 20 years since starting Oaktree Financial Advisors, some things have changed, some have remained the same.

What has changed

Technology has changed a lot. It has automated functions that were previously done manually, making financial planning and investment management less time consuming and more efficient.

Investment expenses have decreased. This is mostly a function of access to institutional share classes with lower expense structures than retail share classes that were prevalent years ago.

We were generalists when we started the firm. In 2003 we began our specialty of helping Lilly employees and that continues today. The majority of our clients are current or retired Lilly professionals.

What has not changed

Asset classes we use in portfolios. We haven't chased performance, or the fad asset classes or investments. Simple is good. Adding complexity for complexities' sake is not.

The importance of planning. You've got to do the planning before the investing.

People want help with their financial planning and reaching their goals. They don't want to be sold investment products.

Our commitment is to help our clients and do what's best for each one. This is why we started Oaktree.

American Diabetes Association's Indiana Tour de Cure

Oaktree was proud to be the presenting sponsor of the 2019 Indiana Tour de Cure for the fourth consecutive year. This year's new location allowed the opportunity to include walkers and runners, as well as bikers. It was a fun event for the whole family and the weather was beautiful. Funds raised will help support the American Diabetes Association camp, research, education and advocacy for people living with type 1, type 2, and gestational diabetes.

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What's Inside

When patients want the very best medical expertise, they go to a specialist, not a general practitioner. Oaktree Financial Advisors specializes in helping current and former Eli Lilly employees and retirees.

We are not affiliated with or endorsed by Eli Lilly. We are an independent firm serving clients who work for or have worked for Eli Lilly.

Investment & Retirement Rx

A newsletter for Eli Lilly employees and retirees

We're excited to present this issue of the Investment & Retirement Rx newsletter. We hope you enjoy it and that you'll share it with your colleagues.

How to Avoid Costly Retirement Planning and Investment Mistakes

An informational workshop for employees & retirees of Eli Lilly

- How to determine **which investment choices** you should be using in your **Lilly 401(k)**
- Strategies for investing in **uncertain markets**
- One simple factor that can determine **92% of your investment return**
- Will I be able to **afford my lifestyle** if I retire?
- How to create **a tax-free income** stream for you and your children

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Reservations required as seating is limited.
RSVP today at **www.oaktreeadvisors.com/workshops**
or **317-708-7655**
Free Iaria's Dinner will be served