



FINANCIAL Insights

July

The Global Retirement Crisis

According to a recent release from the World Economic Forum (WEF), there is expected to be a massive, devastating shortfall of retirement funding among retirees across the world within the next 30 years or so. Estimates from the WEF indicate that the retirement savings gap could eclipse \$400 trillion worldwide by 2050, with the United States comprising over one-third of the global total. In comparison, the retirement savings gap in 2015 was an estimated \$70 trillion. Here, we will explore contributing factors to this monumental issue and steps you can take to help work towards financial security.

Contributing factors

A shift in responsibility

For the last few decades, notably in the United States, there has been a shift from pensions to self-directed retirement accounts. According to the WEF study, 48 percent of retirement-age individuals do not receive a pension. Additionally, contributions to defined-contribution accounts, like 401(k)s and 403(b)s, are typically well below the target of 10-15 percent of pre-tax income. Between a lack of accessibility to pensions and inadequate personal savings rates, workers are finding a significant gap in contributions and benefits designated for retirement.

Of the \$70 trillion worldwide retirement funding shortfall, nearly 75 percent can be directly attributed to underfunded public pensions. In the United States, this is represented by the Social Security trust fund.

Suboptimal investment performance – Compounding the aforementioned issue is that investments are seeing returns that are underperforming historical averages. Over the past 10 years, equities have performed between 3-5 percent lower than average, while bonds are returning 1-3 percent less per year. This is detrimental to both pensions and self-directed accounts, as both of these funding options rely on growth to achieve benchmarks.

Birth rate discrepancies

In the United States, the Social Security system is predicated on as much, if not more, money being paid into the Social Security trust fund than what is being paid out. However, declining birth rates can essentially topple this fragile system. Whereas there are currently eight workers for every one retiree in the world, the ratio is expected to be only about four to one by 2050. With a shrinking generation of younger workers unable to support the aging population, the retirement funding deficit will only worsen.

Other factors

Some additional factors that are contributing to the underfunded retirement crisis are: low financial literacy across the world; an increase in Indian workers participating in the “unorganized sector,” which means lower access to retirement savings accounts; and an increase in personal accountability in managing retirement funds, which results in lower returns for individuals with low financial literacy.

Assessing your own financial situation

When planning for retirement, most individuals make it a primary goal to minimize the ways that their funding could fall short. Here are a few ways to help bolster your retirement savings as you look to the future.

Start now

It’s a simple fact that the earlier you begin saving for retirement, the more time your money has to earn interest and grow. If you’ve put off saving until your 30s or later, make up for lost time now by stashing away 10 to 15 percent of your salary

Contribute to your employer’s plan

If your employer offers a tax-sheltered plan, it is beneficial to contribute at least enough to get the employer match. Your employer can provide you with a summary plan description, which recaps your plan and vesting eligibility, as well as an individual benefits statement.

Make saving as easy as possible

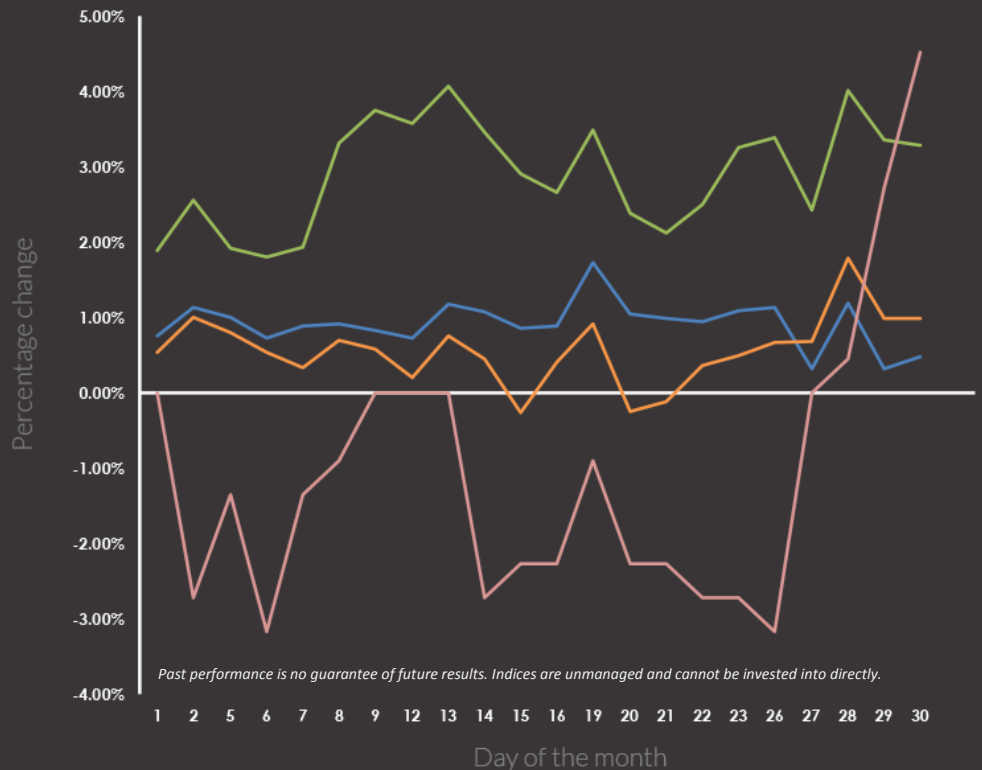
Eliminate the need to move money from one account to another by setting a monthly savings goal and automating a deposit to that amount.

By making savings routine, you are more likely to see your retirement nest egg grow. To help boost your regular savings, funnel any extra cash windfalls, such as from a bonus or inheritance, directly to your retirement savings.

the market at a glance

June

■ U.S. Large Cap (S&P 500)	2,423.41 (0.48%) ▲
■ U.S. Mid/Small (Russell 2000)	1,415.36 (3.30%) ▲
■ International Large (NYSE International 100)	5369.66 (0.99%) ▲
■ U.S. Treasuries (U.S. 10-Year Treasury Yield Rate)	2.31 (4.52%) ▲



The market in action

- Amazon announced that the company would be acquiring Whole Foods for a reported amount of nearly \$14 billion.
- 57 percent of Americans are struggling with their financial health, according to a study published by the Center for Financial Services Innovation.
- According to CNN, crude oil prices are nearing bear market conditions, having fallen more than 20 percent since January.
- So far in 2017, the subsector that has lost the most jobs is wired telecommunications carriers, according to data aggregated by the Bureau of Labor statistics. The wired telecommunications carriers subsector has lost over 27,000 jobs as of April of this year.
- According to ADP, over 250,000 net new jobs were added to the labor market in May.
- Australia has now gone 26 years, or 103 quarters, without a recession, which is defined as 2 consecutive quarters of economic contraction.
- Banco Popular, a prominent lender in Spain which services nearly 4.5 million customers, has been bought by Santander, Spain's biggest bank. On June 6, it was declared that Banco Popular was "failing or likely to fail." In turn, Santander purchased Banco Popular the very next day.
- According to a study by Credit Suisse, an estimated 25 percent of malls in the US are expected to close by 2022. Contributing to this is the rise of online shopping.
- Gymboree, a prominent children's clothing chain, announced they were filing for Chapter 11 bankruptcy. With this move, the company will close about one-third of its 1,281 stores.
- Staples is selling itself to private equity firm Sycamore Partners for nearly \$7 billion.



Bad Barometer

Chances are, the market barometer you most often hear about is the Dow Jones Industrial Average. Every evening, the Dow's ups or downs are soberly reported as if they reflect something important.

They don't.

A recent online article noted that the 37-year-old index only reflects the performance of 30 U.S. multinational companies, and it doesn't even reflect their average performance. The companies with higher share prices count more in the performance numbers, so that when a company's stock enjoys a price surge, it makes up a bigger part of the index.

This can make for some interesting differences between actual market performance and underlying valuation. The Goldman Sachs brokerage firm recently reported a \$224.41 share price, which accounted for 1,537 of the Dow's total points. By comparison, General Electric, which has a \$146 billion larger market cap, only accounted for 185 Dow points with its \$27.02 share price.

With only 30 stocks, the Dow doesn't come close to representing the U.S. business market. Based on its closing price on June 29, the total market capitalization of the companies in the index was about \$6.37 trillion, compared with \$21.8 trillion for the stocks that make up the S&P 500. The Dow has no representation in the utilities and real estate sectors. The Dow doesn't include Alphabet (parent company of Google) or Amazon.com, Facebook, Berkshire Hathaway or Alibaba Group. With the S&P 500 you get a more realistic look at what's happening across the entire spectrum of the U.S. marketplace.

In terms of how it reflects the market, the Dow was an extremely important index in the days of the rotary phone. In today's digital age, it has become a historic novelty. It's time to proclaim the S&P 500 as the market barometer for larger American companies.

-Bob Veres

Source:

<http://www.businessinsider.com/its-time-for-wall-street-to-dump-the-dow-2017-7>

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