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Portfolio Disruption: Review and Rebalance your Defined Benefit Plan

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Remember that joyous day when you started your job and you filled out countless forms including the "risk profile" questionnaire for your 401k, 403b or 457 defined benefit plan or even your Health Savings Account (HSA)? You then selected several investments which satisfied your propensity for risk, chose the amount to be withheld from your paycheck and hoped for the best.

For many of you, it has been a long time since you started your job. For some, you started during a stock market trough. For others, you started when the stock market was forging ahead. In any event, your initial investment and asset allocation was probably dictated by market conditions or your sentiment about the financial markets at the time. Just like your job has probably changed; so has the investment environment. Specific securities in your plan grow at varying rates and asset classes ebb and flow over varying time frames. Left unattended, that "risk profile" questionnaire you filled out serves no purpose as some assets have appreciated well beyond your target percentage while others have depreciated to undesirable levels – It's probably time to rebalance your portfolio.

If you are like many plan investors, you have most likely not bought (other than through paycheck contribution) or sold any of the funds in your plan since the day you became eligible to invest. You look at your quarterly statement or glance at your on-line account from time to time and see that your account is growing but have no idea what the growth is attributable to (i.e. is it an exclusive result of your bi-weekly contributions or, is it a combination of contributions and asset appreciation). You assume everything is ok. Guess what? You may be selling yourself short!

I liken this to waking up each morning and saying to yourself, "I feel ok", when in fact, there is some nagging ailment that you have just gotten used to that goes unattended for one more day. You know you need a physical but you put it off. Asset allocation and rebalancing are basically no different than physicals. Occasionally, you need to make some changes to keep your physical and financial health on their proper course.

I know, you hate those physicals because the doctor invariably tells you to eliminate some of the things you really like and do some things which you may not like. Asset allocation and rebalancing similarly suggest that we trim back what has really performed well and allocate towards those that need attention or are poised to perform better.

Over the past year, C19 has disrupted portfolio allocations. We are now witnessing supply chain disruptions, inflationary pressures, federal budget concerns and the prospect of rising interest rates. Equity prices in some sectors have been resilient yet weak in others. Bond prices are beginning to edge lower as interest rates begin to move higher. International markets are also experiencing many of the same headwinds as the U.S. While these all may be temporary dislocations, it is important to review your holdings in light of where we are and where the markets may be taking us.

Adjustments don't have to be made all at once. In fact, they may be done in moderation such as using bi-weekly contributions and allocating new dollars to asset classes that need to be brought up to target levels. The strategy here is to monitor your path – ensure that you are moving back towards your designated or preferred allocation and once you attain that target, use your contributions to maintain that balance.

Further, if you have the opportunity, consider raising your annual deferral amount. With tax rates climbing, *compound annualized returns within your tax deferred defined benefit plan become more attractive.* For example, if you are in the 35% tax bracket, 100% of your pre-tax dollars will be invested and earning a tax deferred return as opposed to investing 65% of your after-tax income outside of your defined benefit plan. Using your incremental contributions can be a useful way to rebalance and enhance the probability of achieving your long term investment objectives. Not sure you can afford increasing your annual deferral? Consider taking a portion of your year-end salary increase and placing it in your defined benefit plan…..Sometimes employees see this approach as the most palatable particularly if the raise places them in a higher tax situation.

To this point, I have focused exclusively on one's defined benefit plan and the merits of rebalancing. I do recognize that this is only part of an individual's financial profile. There may be other investment accounts outside the plan, a large work bonus, family inheritance or a change in health or family status which may enter the equation. Further, work as a team with your spouse. I am always amazed at how many couples fail to review their portfolios as a whole.

While these factors can sometimes complicate one's longer term investment goals as many look at each factor as a silo when, in fact, they should be viewed in the aggregate. Each factor plays a significant role in developing a long term investment strategy and should be carefully integrated such that they form one single risk profile which is comfortable for you and your family.

As our economy grinds its way out of the recessionary trough of the pandemic and we return to some sense of normalcy, take some time to reflect on what you have and how this measures up against your goals and objectives. There may be some imbalances, there may not. Regardless, it is an exercise worth adopting and becoming part of your regular financial review. If you are uncertain about setting longer term financial goals or appropriate asset allocations inside or outside your defined benefit plan, please feel free to call me. I can be reached at 312.485.6847 or at Kim.Suchy@CSAMG.com

Best regards,

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Note to readers: Investing involves risk; including risk of loss. Before investing, you should consider the investment objectives, risks, charges and expenses associated with investment products. Investment decisions should be based on an individual's own goals, time horizon, liquidity needs and tolerance for risk. Past performance is no guarantee of future results. Diversification and asset allocation do not insure a profit or guarantee against loss. Consult your financial professional before making any investments.