Rowling
& associates

A Simple, No-Nonsense Guide to Sempra/SDG&E Employee Benefits

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Things Change!

(our legal disclaimer)

The information presented in this booklet is based in large part on information we have gathered over the years. This information is for educational purposes. Not every person's situation may fit with our general guidelines outlined in this booklet. Additionally, this information is based on Federal and state laws and Sempra benefits as of 2018. These laws, IRS tax code, and Sempra benefits can and will change.

Prudent financial planning may increase your chances for success but cannot guarantee that your goals will be achieved. When planning over any extended period of time, small differences in assumptions will create large variations in future results. You should use this booklet to help you focus on the factors that are most important to your financial success and to see how decisions you make now might impact your future.

Working with a financial planner will keep your plan current and will help to provide a course of action to maximize the likelihood of achieving your goals.

The only guarantee provided is that things will change, possibly on a daily basis. You should review and update your employer benefits and financial plan periodically, to be sure that it remains current and appropriate for your needs and objectives. Financial planning is an ongoing process, not a one-time event.

This booklet will help you focus on your most important financial objectives and help you determine how best to deploy your resources to achieve them. Planning also provides the structure and discipline needed to meet your financial goals.

This booklet is not intended to provide specific financial, tax, or legal advice for your individual set of circumstances. You should consult qualified advisors for advice specific to those areas.

Introduction and Purpose of this Booklet

This booklet is written for Sempra and SDG&E employees. You are most likely a long-term employee and understand that you have excellent employee benefits. This booklet will provide a quick overview of your benefits in simple-to-understand language. Ideally, you'll discover something about your employee benefits that will improve your progress towards retirement or provide your family additional protection.

If you are a new employee of Sempra or SDG&E, this booklet will also be of great value. Starting a new job is overwhelming. Employee benefits are confusing and big decisions need to be made in a short amount of time. Taking 30 minutes to read this booklet will give you a solid foundation to ask Human Resources additional questions. Then you will be able to make informed decisions about your employee benefits and make smart choices from the beginning of a long career at an amazing company.

As for Rowling & Associates, we are an independent wealth management firm located in San Diego, California. We work with individuals at all stages of life and several Sempra employees just like you. You do not need to be wealthy to be a client! Everyone needs financial advice.

There are several reasons why we are a good fit to provide you advice. One is that we are fiduciaries to our clients. Our firm adheres to a fiduciary standard, which means we are required to only provide recommendations in the client's best interest. We do not work on commissions, nor do we sell annuities or life insurance. Our firm is also an accountancy corporation with CPAs on the team. Having one wealth management firm for investments and taxes provides synergies for complex tax and financial planning.

Enjoy this booklet and please reach out to set up an introduction meeting to hear how we can help you!

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401(k) Plan

Let's start with something that most people are familiar with or at least hear about while talking around the coffee machine. The 401(k) plan at Sempra is the easiest, and probably most beneficial, way to save for retirement. As of 2018, the allowable contribution limit is $18,500 for people under 50 years old, and $24,500 for people 50 years and older. These contributions can be either pre-tax or Roth 401(k) contributions. We will get to the decision between these two types of contributions in the following paragraphs. For now, let's just focus on the basics.

Tip: The $24,500 limit applies for the entire year you turn 50 years old. This is true even if your 50th birthday is on December 31st - you can still make the full $24,500 contribution for that year.

Sempra has a nice employer match to reward employees who save for retirement. They match 50 percent of every dollar you contribute up to six percent of your pay. Contribute six percent and you get an automatic three percent raise just for saving. Sempra also gives you the opportunity to get an additional one percent of free money by contributing another five percent of pay to the 401(k) plan. They call it a "stretch match." It's not as generous as the first tier of matching contributions, but every dollar counts.

For those who have done the math, you need to contribute 11 percent of your pay to get the entire four percent employer matching contributions.

Tip: Save at least 15 percent of your total income (this doesn't include any employer match). People on track for a normal retirement age of 67 save 15 percent of their total income. Super-savers achieve a rate of 20 to 25 percent and can typically retire much earlier.

If your pay is over $168,182 per year, then you will need to do After-Tax 401(k) contributions to get the full Sempra match. Why such a strange number? Because 11 percent of $168,182 equals $18,500. If you make more than this amount, then you will hit the $18,500 limit before year-end. That means you will not be saving to the 401(k) plan during those last few paychecks. And not saving to the 401(k) plan for any paycheck period means Sempra will not match!

Ok, it's confusing so let's look at an example. Juan makes $200,000 per year and is saving 11 percent to a 401(k) plan. Great! He chose 11 percent because that's what Sempra matches. Will Juan get the full employer match?

No! Juan is missing out on free money. Many highly paid Sempra employees are passing up on the employer match and do not realize it's happening. What's going on?

Juan gets paid every two weeks. Each paycheck has gross earnings of $7,692.31 (this is just his $200,000 annual pay divided by 26 paychecks per year – we promised no complex stuff!) His 11 percent 401(k) contribution is $846.15 per paycheck. By the time Juan gets his 22nd paycheck for the year, he has hit the 401(k)-contribution limit of $18,500.

The last four paychecks of the year have no 401(k) contributions, which means Sempra doesn't make a matching contribution. Juan received the total four percent match for only 22 paychecks. Multiply $7,692.31 by four percent to see Sempra matches $307.69 per paycheck. Multiply this by Juan's 22 paychecks before he maxed out to get Juan's total Sempra match of $6,769.18 for the entire year.

Nice match and all free money. Now do one more calculation: $200,000 times four percent. Do you get $8,000? That's strange. Sempra matches four percent of pay if Juan contributes 11 percent to the 401(k). Why are his total matching contributions only $6,769.18 when they should total $8,000? Because Juan maxed out his 401(k) too soon. He missed out on $1,230.82 of employer match.

Tip: If you don't make after-tax contributions, be sure to stretch out your $18,500 contribution through the entire year. You will miss out on matching contributions if you hit the $18,500 maximum before year-end because Sempra only matches for pay periods that the employee contributes.

If you are like most Sempra folks hearing this for the first time, you don't believe this is happening. It's pretty easy to check. Just look at your final paycheck of the year and divide your Year-To-Date Employer Match by Gross Pay. If it doesn't equal four percent of your pay and you max out the 401(k), then you are missing out on free money.

Now that we've covered the basics, it's time for the exciting news you probably don't know about the Sempra 401(k). Additional 401(k) contributions are allowed up to a 2018 maximum of $55,000! ($61,000 for people 50 years and older.)

There are a few things to consider before logging into the benefits website to max out your 401(k) contributions. First, these additional contributions are "after-tax." This means there is no immediate tax break, but as you will see, it is still a very smart thing to do if your budget can afford the additional savings.

The other thing to understand is that this limit of $55,000 includes the employer match. An example is the simplest way to explain. Isabella is 45 years old earning $150,000 per year. She contributes 12.3

percent of her pay into the pre-tax 401(k) plan. This gets her to the maximum pre-tax limit of $18,500 ($150,000 x 12.3 percent). She also receives the entire four percent employer match because she is contributing more than 11percent of her total pay. The dollar amount of the employer match is four percent of $150,000 equaling $6,000.

The $55,000 limit allowed into the 401(k) includes all of Isabella's contributions plus all employer contributions. She has already contributed $18,500 of pre-tax 401(k) money and received $6,000 of employer match. That totals $24,500. Isabella can still contribute an additional $30,500 of after-tax contributions to her 401(k) account before hitting the $55,000 annual limit.

That's pretty amazing if Isabella can pull this off. Most likely, that would be too high of a savings rate to achieve and still be able to afford some sort of balanced lifestyle. However, she could probably save some after-tax 401(k) contributions since she is currently saving 12.3 percent of pay and the target savings rate is at least 15 percent of pay.

There's more good news! Sempra matches After-Tax 401(k) contributions. So as long as Isabella signs up for After-Tax 401(k) contributions, she will get the full four percent match. Juan could have been getting the full match too if he would have signed up for After-Tax 401(k) contributions. Unfortunately, no one told him and not many understand how this all works.

Sign up for After-Tax 401(k) contributions by logging into the 401(k) website. Find the Contributions section and then locate the line titled "Post Limit After Tax." This is where After-Tax 401(k) contributions are set.

Tip: After-Tax 401(k) contributions are not allowed once your total pay hits $275,000. Make sure you achieve your annual savings goals before exceeding this income.

For those skeptics out there that like immediate results, I hear your question! *"Why save into an after-tax account? There is no tax benefit to doing this. It's better to save to the deferred compensation plan and get the tax break now!"*

Wrong!!!

The great thing about the After-Tax 401(k) is that these contributions can be rolled into a Roth IRA when you leave Sempra. Many Sempra employees can't contribute to a Roth IRA because they exceed the income limits to make contributions. The After-Tax 401(k) is a fantastic way to get money into a Roth IRA. A Roth IRA is the best deal Congress gives retirees. After the initial tax payment, there is never tax owed on money in these accounts! This includes all investment gains, dividends, and interest earned in the account. And there are no Required Minimum Distributions at age 70 ½ like there are on pre-tax 401(k)s and IRAs. Money in a Roth IRA can just continue to grow as long as you live. It's also a wonderful account to leave for your children because they won't pay taxes either.

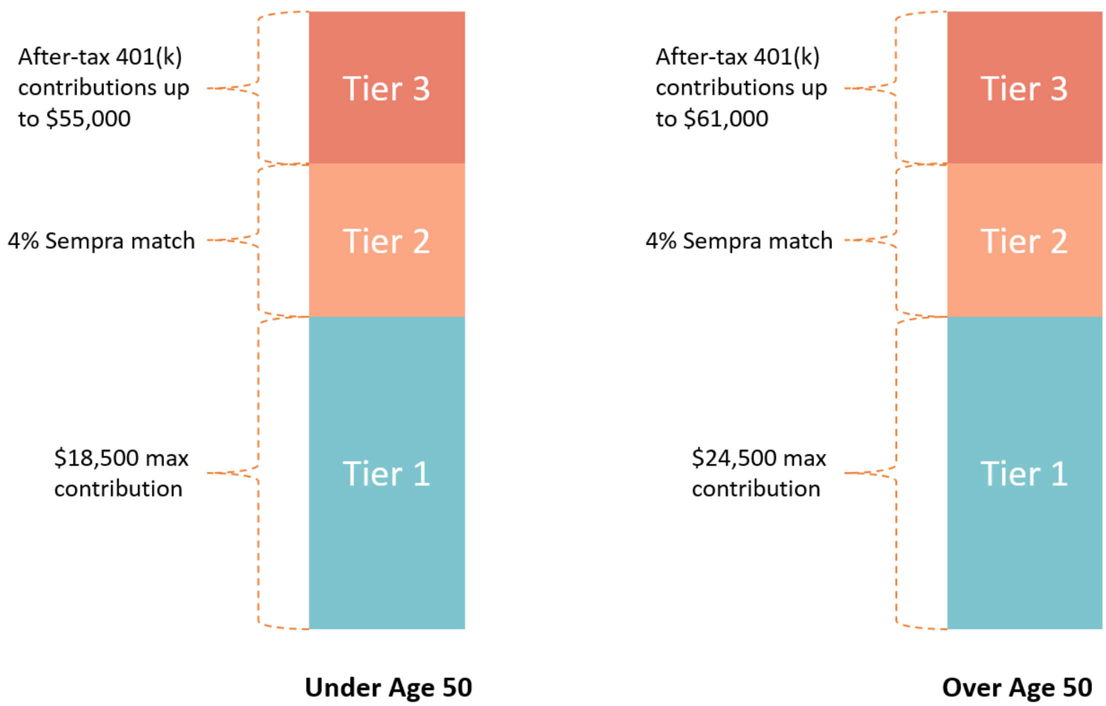
Since Roth IRAs are so amazing, you might wonder if you should contribute to the Roth 401(k) for your $18,500 contribution ($24,500 for people age 50 and older). It's a smart thought to have, but it really depends on your tax bracket. If you are in the 12 percent tax bracket, then definitely save to the Roth 401(k). If you are in a higher tax bracket (22 percent and up), then save to the pre-tax 401(k).

Why save to the pre-tax 401(k) if you are in a 22 percent tax bracket or higher? Well, we never know for certain what tax rates will be at retirement. However, there is a good chance that you will be in a lower tax bracket in retirement. Saving to the pre-tax 401(k) allows you to avoid paying the 22 percent tax rate (or higher) today, and hopefully only pay 12 percent when you withdraw the money in retirement.

If someone is already paying the 12 percent tax rate on all their income, it's better to pay the tax now and get all the future investment gains tax-free. Contributing to the Roth 401(k) makes sense for those individuals.

We covered a lot in just a few paragraphs, so let's do a recap of the different tiers of 401(k) savings:

- Tier One: Your contributions of up to $18,500 ($24,500 for people 50 and older) can be either pre-tax or Roth 401(k). Choose pre-tax if you are in the 22 percent Federal tax bracket or higher. Choose Roth 401(k) if you are in the 10 percent or 12 percent Federal tax brackets.
- Tier Two: Sempra matches up to a maximum four percent of pay. Absolutely save at least six percent of your pay to get the free three percent Sempra matching contribution. Then do all that you can to increase your 401(k) contributions to 11 percent to get that extra one percent of free Sempra money.
- Tier Three: Save to your After-Tax 401(k) with contributions up to a maximum of $55,000 ($61,000 for people 50 and older). The amount you can save in this tier depends on how much you get in employer match. The IRS has severe penalties if you exceed these limits. Do your calculations correctly to save the right amount!



Seek the guidance of an independent, fee-only investment advisor when creating a savings strategy that is tailored to your situation. A fee-only advisor is legally obligated to only give advice that is in your best interest. Ask your advisor if they are a fiduciary to you - and get it in writing.

401(k) Investment Choices

Sempra's 401(k) plan has 22 different mutual funds to invest your 401(k) contributions. Ten of these mutual funds are focused on a single asset class. For example, the Vanguard Institutional Index Plus fund only invests in large U.S. stocks, or the Metropolitan West Total Return Bond fund only invests in intermediate-term U.S. bonds. These single asset class funds have low fees and solid long-term performance.

You can build a diversified portfolio from these 10 mutual funds if you understand asset allocation and your risk tolerance. If you don't know these terms, please do not try choosing these single asset class funds. Investors typically make their biggest mistakes by getting into the wrong asset allocation. They do not realize the importance of having the correct mix of bonds and stocks.

The simple option is to choose one of the T. Rowe Price Retirement Target Date funds. Choose the fund with the closest year to your expected retirement date. These funds automatically invest your 401(k) into a diversified portfolio of stocks and bonds. Even better, the allocation to stocks decreases as your retirement date nears. This makes your portfolio less risky as you get close to retirement.

The smartest option is to seek the advice of a fee-only financial advisor who can determine the correct asset allocation for you based on your risk tolerance, investment time horizon, and financial goals. Then a tax-efficient portfolio can be built using all your investment accounts in one cohesive portfolio. For example, let's say you have a spouse/partner who also has a 401(k). You and your partner would have one portfolio strategy to reach your goals. Your partner's 401(k) has a high-fee, low performing mutual fund for the large U.S. stock asset class, but a great low-cost international stock fund. In this situation, an advisor would be wise to use Sempra's U.S. stock fund and your partner's international stock fund. Not every account needs to hold every asset class when you have a proper portfolio strategy.

Another example is to create a tax-smart portfolio. Try to place bonds in tax-deferred accounts like 401(k), 403(b), and IRA accounts. Hold stocks in brokerage accounts that have after-tax money in them. This helps avoid bond interest becoming taxable interest because you don't pay tax on interest earned in a tax-deferred account. Also, stocks have the biggest gains over the long-term. Hold them in a brokerage account so that you pay capital gains tax rates instead of ordinary income tax rates.

Investing gets complex very quickly. Seek professional advice or stick with the T. Rowe Price Retirement Target Date funds.

Deferred Compensation Plan

It's always interesting when Sempra employees first meet with us at Rowling & Associates. Since they were likely referred by another Sempra colleague, they have already been warned we do not like the Sempra deferred compensation plan. There seems to be a "herd" mentality happening around Sempra – "everyone else is contributing to the deferred comp plan so I should do it too."

The biggest problem with the deferred comp plan is that money you voluntarily defer is actually an unsecured liability for Sempra. If Sempra ever files for bankruptcy, this liability goes to the end of the line. All the other creditors get paid back before you will ever see a dollar. Is it worth risking your retirement dreams on one company? We don't think so.

There are other reasons not to contribute to the deferred compensation plan. One reason is the lost opportunity to do Roth conversions after retirement. A typical strategy we use with clients is to convert some pre-tax 401(k) monies into a Roth IRA in those first few years after retirement. As early retirees, these clients have no salary income and haven't started Social Security yet. This puts new retirees (in most cases) in the 12% Federal tax bracket. We can fill up that 12% tax bracket with Roth conversions, and then that money grows tax-free into the future.

This Roth conversion strategy is derailed when those first few years of retirement have large deferred compensation distributions. These distributions are taxed just like a paycheck and push you into a higher tax bracket, meaning Roth conversion is not a viable strategy.

For Sempra folks who retire at age 65 or older, there is the issue of Medicare premiums. People begin Medicare coverage at age 65 (unless they are still working and on company health coverage). Premiums for Medicare start at $134 per month in 2018. A lesser known fact is that Medicare premiums increase with income. The higher your income, the higher your Medicare premium.

Deferred compensation distributions increase your income and hit you with higher Medicare premiums. The good news is that this higher premium only lasts for the year following the high-income year; therefore, it's not a permanent increase.

Tip: If you start Social Security before your Full Retirement Age and receive deferred compensation, you will get a scary letter from the Social Security Administration saying you have to pay back all your Social Security. Don't panic! Speak with your tax preparer and have them complete Social Security Form SSA-131 Employer Report of Special Wages. This form lets the Social Security Administration know the income was deferred compensation. Then you are off the hook and don't have to pay back Social Security.

The deferred compensation plan seems like a good idea on paper because you get to avoid paying lots of taxes. However, it's not a safe long-term strategy since it is an unsecured liability for Sempra. Plus, you miss out on valuable Roth conversion opportunities down the road. We think the smarter strategy is to skip the deferred comp plan and max out your After-Tax 401(k) instead!

Cash Balance Plan

This is the most generous employee benefit you get at Sempra. The company currently contributes 7.5 percent of your pay into an account for you. This doesn't cost you anything. It is 7.5 percent of free money just for being a Sempra employee.

If Sempra is your first job, know that this type of plan is very rare these days. Most companies have eliminated or greatly reduced their pension plans. You are extremely fortunate to have this benefit. It adds up to several hundred thousand dollars after a few decades of employment. And it just happens without you doing anything.

When you get close to retirement, a choice can be made between a lump sum payment or a monthly payment for the rest of your life. The lump sum payment can be rolled into an IRA. No taxes are due when you roll over the funds directly to an IRA. Withdrawals from the IRA are taxed at ordinary income tax rates.

It's a big decision that should not be taken lightly. Things to consider are your risk tolerance, comfort with Sempra's financial position for the next three to four decades, desire to leave something for heirs, and the monthly payout rate compared to the lump sum amount. Everyone has a different situation and goals. Seek advice from a fee-only planner to sort through the pros and cons along with your needs. There is no right or wrong answer when choosing between the monthly payment and lump sum. The right choice is the one you make with your eyes open.

Health Savings Account (HSA)

Health Savings Accounts, or HSAs, are available to people who have a high-deductible health insurance plan. The HSA is used for medical expenses such as your deductible, co-payments, medications, prescription glasses and dental care. The cash deposited into an HSA is pre-tax money. And money withdrawn from the HSA is also tax-free if used for qualified medical expenses.

Think of HSA contributions as similar to 401(k) contributions but held in an account that's accessible for medical expenses. You can deposit up to $3,450 for a single person or $6,900 per family for 2018. If you are 55 or older, then you're allowed to make an additional $1,000 annual contribution.

Sempra seeds your HSA each year with a $1,000 contribution for singles, and $2,000 for families. This counts toward the limits mentioned above. So, a single person can contribute up to $2,450 of their own pre-tax money while Sempra contributes $1,000 (free money!) to hit the total HSA limit of $3,450.

Many people may already be aware of the great tax-free benefits of contributing to an HSA. But if you're still not convinced to contribute to an HSA, then please read on.

The money put into an HSA doesn't have to be used each year. Any unused money can be used the following year or in 20 years! There is no time limit to use the money and HSAs are not "use-it-or-lose-it" accounts like their inferior cousin, called Flexible Spending Accounts (FSAs). The ability to accumulate a balance in your HSA is one of the key factors that make it such a great deal.

The other key factor is that the money saved up in an HSA can be invested in mutual funds. This allows your money to grow tax-deferred until you need it for future medical expenses. And what might some of these future medical expenses be? Glad you asked, because now we get into the cool stuff.

People who are far from retirement probably don't know this, but Medicare isn't free. Medicare has a monthly premium of $134 per month (2018 premiums) plus deductibles, co-pays and prescription drug costs. Thus, we could all be looking at plenty of future medical expenses.

This is where the power of an HSA really starts to pay off. Accumulating an HSA balance is just like saving for retirement, but this money is specifically set aside for your future medical costs. And don't forget that it's all tax-free money!

Let's use an example to show how this might work. Joe is a 35-year-old guy who diligently contributes $2,450 per year to his HSA while Sempra contributes another $1,000 for 30 years until he's 65 years old. He used about a third of each year's contribution for medical expenses but allowed the other two-thirds to accumulate in his HSA. Joe chose low-cost mutual funds to invest his growing HSA balance and was able to earn an average annual return of five percent.

What is Joe's balance in his HSA when he retires at age 65? If you guessed $152,800, then you would be correct. Imagine having that much money saved up to pay for future Medicare costs! All of Joe's friends will be paying their medical expenses with after-tax money while Joe pays his with tax-free money.

Next time you select health insurance, be sure to take a look at Sempra's high deductible plan called Anthem Health Care Plus plan. If it's right for you, then be sure to open an HSA to take full advantage of this great benefit.

Beware: You can be working and start taking Social Security at your Full Retirement Age (currently 66 years old). If you start taking Social Security while you are still working, you cannot contribute to an HSA. Don't get caught in this trap! Wait until you retire before starting Social Security.

Flexible Savings Account (FSA)

Sempra has several unique benefits not offered at most companies. A flexible spending account (FSA) is common, but Sempra doesn't have just one FSA. They offer five different FSAs! Let's cover all five to see which ones you should use to fit your life situation.

Healthcare FSA

This FSA is for people signed up for the Anthem HMO or Kaiser HMO health plan. Sempra employees can contribute up to $2,600 of pre-tax money to this account. A debit card is sent to you. This card is used for co-pays at doctor visits, trips to the dentist, and picking up prescriptions at the pharmacy. The FSA can pay for those medical expenses not covered by your health plan. The issuer of the FSA debit card does confirm every charge is a qualified expense. To see the types of products you can buy with an FSA, visit the website https://fsastore.com . It's easy to see how almost anyone can spend $2,600 a year on FSA qualified expenses. Total Federal and state tax rates quickly add up to 25 to 35 percent. Contributing the maximum to an FSA saves you several hundred dollars in taxes. Know that FSA money needs to be used up by December 31st each year. Many companies allow additional time until March 15th of the following year. However, you will need to check with the benefits department for their current deadline to use FSA monies.

Limited Healthcare FSA

This FSA is for people signed up for the Anthem Health Care Plus plan with an HSA. Employees can contribute up to $2,600 of pre-tax money to this account just like the regular FSA described above. The difference is this money can only be used for vision and dental expenses. Since this account is limited, you should estimate how much you will need for vision and dental expenses that won't be covered by your vision and dental insurance. For example, those high-end frames you want may not be covered by insurance, but you can use this limited FSA to cover the difference. Or maybe the dental insurance only covers 80 percent of braces, so this limited FSA can cover the remaining 20 percent. The strategy with this account is to use it as much as possible to keep more money in the HSA. Remember that money in an HSA can stay in there for your lifetime and be invested for long-term growth. The same deadline of using the money by December 31st each year applies to this Limited FSA.

Dependent Day Care FSA

You can contribute up to $5,000 a year of pre-tax money into this FSA. It is specifically for day care. Most people will use this for their young children. The child must be under 13 years old in order to use money in this FSA for their day care. However, it can also be used for adults. The requirements for adults are they need to live with you at least half of the year and be unable to physically or mentally care for themselves. This could be a spouse recovering from a car accident or back surgery, or a special needs adult child living at home. The important thing to know is this isn't just for young children.

Transportation FSA

An employee can contribute up to $255 per month ($3,060 per year) of pre-tax money into this FSA for mass transit costs. The nice thing about this is that the contribution amount can be changed each month so that a balance doesn't build up. For example, if you contribute $255 in January, but only use $200 of that amount, then reduce your contribution in a later month to use up the extra $55. Anyone can sign up for this FSA at any time during the year, so try taking the train or trolley to work one month. If you don’t like it, stop contributing to this FSA. This money can also be rolled over into the following year. It doesn’t have the same deadlines as the other FSAs. If you get a subsidy for transportation, then that reduces the amount of money you can contribute to the account. For example, a $50 monthly company subsidy for transportation reduces your max contribution to $205.

Parking FSA
In addition to the Transportation FSA, an employee can contribute another $255 per month ($3,060 per year) of pre-tax money into the Parking FSA. You can do either a Parking or Transportation FSA or both. The Parking FSA has the same rules as the Transportation FSA.

So which FSA should you use? The Healthcare FSA is an easy choice to go with for those signed up with one of the HMO health plans. For those with an HSA, use the Limited FSA strategically each year by estimating how many dental and vision expenses you might have out of pocket. Plan in advance of when larger expenses at the dentist or optometrist will occur and contribute the amount during open enrollment. The other FSAs are great if you have dependent care expenses or pay for mass transit or parking.

Long Term Disability (LTD) Insurance

This insurance is a must have for every employee. According to the 2017 U.S. Social Security Fact Sheet, just over 1 in 4 of today's 20-year-olds will become disabled before reaching age 67.

Luckily, Sempra automatically provides this insurance at no cost to you! Long term disability insurance is so critical because the probability is high that you will experience a disability at some point during your working years. Think of how many people can't work due to back surgeries or those who have been in a car accident with long-term issues. If you cannot work, paychecks eventually stop. This coverage will keep the checks coming.

Sempra's LTD plan covers 60 percent of your income up to $12,000 per month. This is an important cap to take note of and do some calculations. The maximum income covered is $240,000 per year, so you do not have 60 percent LTD coverage if your income is higher.

Disability income is also considered taxable income since Sempra is paying for this insurance. That means the actual take-home pay will be much lower than 60 percent of your income. For example, let's assume Joe makes $10,000 per month. He gets in a car accident and cannot work. After Sick Leave time is used up and it's been 60 days of Joe not working, the disability insurance payments kick in at the 60 percent rate, or $6,000 per month. This $6,000 is taxable income. Tax rates vary based on everyone's individual situation, but let's assume Joe pays 25 percent in Federal and state tax. That's $1,500 to taxes and $4,500 for paying bills. Is that enough for Joe? It might be, and it's definitely a great benefit to have this income. However, taxes matter, so consider this and decide if additional coverage is needed.

An LTD insurance policy paid by you with after-tax money has different tax treatment. Disability payments are tax-free! This money is not considered taxable income. A great place to look for affordable LTD policies is with professional organizations. For example, an engineer can join the "national association of engineers" if they offer LTD policies for their members. Research this for different organizations you are qualified to join and check their membership benefits for LTD insurance.

The good news is you already have a nice LTD policy just by working at Sempra. Confirm the after-tax amount will be enough to pay for critical needs like housing, food, utilities, and required monthly payments like car loans and credit cards. Get additional LTD insurance from a professional association if the Sempra policy isn't enough to cover all those living expenses.

Life Insurance

In general, you don't need life insurance if you don't have dependents. For those with dependents, a good rule of thumb for life insurance is 10 times your annual salary. For example, someone making $100,000 should have at least $1 million of life insurance. However, this is purely a rule of thumb and each family will have their own specific life insurance needs based on spouse working, kids, and goals like paying off a mortgage and college.

Sempra provides life insurance equal to one year of salary at no cost to you. Additional insurance can be purchased for up to six times your salary. There is an Evidence of Insurability requirement if getting coverage for more than two times your salary.

Getting additional coverage through Sempra's plan is a good idea. However, you might want to consider getting term life insurance from outside the company plan. This can be the less expensive option over a 20-year period; however, it may not seem that way initially when comparing premiums. The Sempra plan will have lower premiums than a term life policy you get on your own. However, all company life insurance plans (not just Sempra's) raise premiums every 5 years on your birthday (30, 35, 40, etc.).

A term life insurance premium held outside of your company plan is fixed at the same monthly premium for the entire term. Over a 15 or 20-year time period, this monthly fixed price adds up to less money out of pocket than paying the increasing premiums of Sempra's company plan.

A nice feature of Sempra's plan is that the amount of life insurance can be decreased over time. You may need the full six times salary coverage when the kids are young, but only need three times salary when they are out of the house. You get to choose each year how much coverage you need and only pay for that amount.

Something similar can be done with term life insurance, but not with as much flexibility as the company plan. Let's say Janet needs $1.5 million of life insurance. Her kids are young, so she needs 20 years of life insurance coverage until they are grown. Instead of buying a $1.5 million policy for 20 years, Janet can "ladder" three policies so her coverage and premiums decrease over time. She gets three policies of $500,000 each in terms of 10, 15, and 20 years. For the first 10 years, Janet has $1.5 million of coverage. After 10 years, the first policy expires leaving Janet with $1 million of coverage, and lower premiums. This aligns with her needs because her kids are 10 years older and life insurance needs are lower too.

One last benefit of having outside life insurance policies is that coverage is locked in if you change jobs or stop working. Recall that Sempra's plan requires "Evidence of Insurability." Other employers might also have that same requirement. If you leave Sempra for a career change, you might not be able to get life insurance later on in life if diagnosed with something that prevents "evidence of insurability" at the new job. Or, your new employer might not offer life insurance as a benefit.

Wrap Up

You've just read a ton of information with very specific details. Hopefully this pamphlet has helped you in selecting the right benefits for you. There is much to keep in mind so be sure to consider these major points:

- Be smart when choosing the type of your 401(k) and how much to contribute. Be sure to call your HR representative with any questions.
- Don't miss out on employer match contributions. We've seen too many employees overlook this great benefit. In fact, it was our primary motivation for writing this booklet.
- Consider staying away from the deferred compensation plan. We believe that there are better long-term savings strategies. More importantly, it's not worth it to place so much of your retirement eggs in one company's basket.
- Take advantage of the HSA or FSA, depending on which health insurance you choose.
- Be sure that you have enough life and long-term disability insurance. Get additional coverage from outside companies if the Sempra coverage isn't adequate.

Finally, seek the guidance of an independent, fee-only investment advisor to help you create a coordinated savings and investment strategy that is tailored for your specific situation. A fee-only advisor is legally obligated to provide advice that is solely in your best interests. Ask your advisor if they are a fiduciary to you and get it in writing. Rowling & Associates is a fee-only investment advisor that adheres to the fiduciary standard of care, and we work for the client's best interests.

We wish you all the best in your career at Sempra. It is an amazing place to work with generous employee benefits!

About Rowling & Associates

Rowling & Associates provides fee-only, tax-efficient financial planning and investment advice to individuals. The firm doesn't earn commissions on any recommendations and adheres to strict fiduciary standards. Prestigious designations held at the firm include Certified Public Accountant (CPA), Personal Financial Specialist (PFS), and CERTIFIED FINANCIAL PLANNER™ (CFP®). The goal of Rowling & Associates is to educate you in understanding and selecting the best ways to achieve your unique financial future.

To learn more, see our website at www.rowling.com

About Steve Doster

Steve first discovered his interest in finance and investments shortly after graduating from the University of Arizona in 1993 with a B.S. in mechanical engineering. He accepted a position in an intensive training program along with 20 other recent graduates. Steve's first employer, a Fortune 500 company, offered excellent health and retirement benefits. He was surprised and slightly embarrassed that he and his new coworkers were baffled about what choices to make among all the retirement and investment options presented to them during the new employee orientation.

It was then that he realized the education system does not address the basics of financial planning. It wasn't his fault that 20 intelligent, college-educated kids didn't know this stuff. However, no one would be to blame except himself if he didn't do something about it. He jumped in head first to self-educate himself by reading every financial book, magazine, and newspaper he could get his hands on. It wasn't long before his interest in financial planning developed into a passion to help his friends and family navigate the maze of retirement savings plans, tax laws, and investment options.

In 2003, Steve went on to earn an MBA from Arizona State University with a specialization in finance. Upon graduation, Steve accepted a position in Southern California with JPMorgan Chase as a financial analyst working his way up to a client manager and vice president. After several years working at a large financial firm, Steve became a Certified Financial Planner™ professional and started his own financial planning firm in 2009. He met Sheryl Rowling in 2014 and joined the Rowling & Associates team as the Financial Planning Manager.

Educating clients to help them achieve their unique life goals is what Steve enjoys the most about financial planning. His retirement dream is to live on a 42-foot catamaran for a year or two while sailing the Sea of Cortez and Central American coastline.

Contact Steve at steve@rowling.com or 619-295-0200.