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Financial Briefs

DECEMBER 2020

Pump Up Your Retirement Savings

Don't give up on your retirement goals if you find you've entered middle age with little to no retirement savings. Sure, it may be harder to reach your retirement goals than if you had started in your 20s or 30s, but here are some strategies to consider:

- **Reanalyze your retirement goals.** First, thoroughly analyze your situation. Calculate how much you need for retirement, what income sources will be available, how much you have saved, and how much you need to save annually to reach your goals. If you can't save that amount, it may be time to change your goals. Consider postponing retirement for a few years so you have more time to accumulate savings as well as delay withdrawals from those savings. Think about working after retirement on at least a part-time basis. Even a modest amount of income after retirement can substantially reduce the amount you need to save. Look at lowering your expectations, possibly traveling less or moving to a less expensive city or smaller home.
- **Contribute the maximum to your 401(k) plan.** Your contributions, up to a maximum of $19,500 in 2020 and 2021, are deducted from your current year gross income. If you are age 50 or older, your plan may allow an additional $6,500 catch-up contribution, bringing your maximum contribution to $26,000. Find out if your employer offers a Roth 401(k) option. Even though you won't get a current year tax deduction for your contributions, qualified withdrawals can be taken free of income taxes. If your employer matches contributions, you are essentially losing money when you don't contribute enough to receive the maximum matching contribution. Matching contributions can help significantly with your retirement savings. For example, assume your employer matches 50 cents on every dollar you contribute, up to a maximum of 6% of your pay. If you earn $75,000 and contribute 6% of your pay, you would contribute $4,500 and your employer would put in an additional $2,250.
- **Look into individual retirement accounts (IRAs).** In 2020 and 2021, you can contribute a maximum of $6,000 to an IRA, plus an additional $1,000 catch-up contribution if you are age 50 or older. Even if you participate in a company-sponsored retirement plan, you can make contributions to an IRA, provided your adjusted gross income does not exceed

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Money Personalities and Saving

Everyone approaches their finances differently, but there are common mistakes that certain money personalities make. The following highlights five different money personalities, the mistakes they make, and how they can improve their financial picture.

Entrepreneur

Because they put all their financial resources and energy into their business, entrepreneurs may make mistakes such as cashing out their retirement plans to fund their business, holding too much debt, or even getting behind on self-employment taxes.

Entrepreneurs would be best served by developing a business plan with income and expense projections to ensure they use debt wisely to fund their business. They should also make contributions to a retirement plan annually, even if it's only a few thousand dollars. And

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Pump Up

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certain limits.

- **Reduce your preretirement expenses.** Typically, you'll want a retirement lifestyle similar to your lifestyle before retirement. Become a big saver now and you enjoy two advantages. First, you save significant sums for your retirement. Second, you're living on much less than you're earning, so you'll need less for retirement. For instance, if you live on 100% of your income, you'll have nothing left to save toward retirement. At retirement, you'll probably need close to 100% of your income to continue your current lifestyle. With savings of 10% of your income, you're living on 90% of your income. At retirement, you'll probably be able to maintain your standard of living with 90% of your current income.
- **Move to a smaller home.** As part of your efforts to reduce your preretirement lifestyle, consider selling your home and moving to a smaller one, especially if you have significant equity in your home. If you've lived in your home for at least two of the previous five years, you can exclude $250,000 of gain if you are a single taxpayer and $500,000 of gain if you are married filing jointly. At a minimum, this strategy will reduce your living expenses so you can save more. If you have significant equity in your home, you may be able to use some of the proceeds for savings.
- **Substantially increase your savings as you approach retirement.** Typically, your last years of employment are your peak earning years. Instead of increasing your lifestyle as your pay increases, save all pay raises. Anytime you pay off a major bill, such as an auto loan or your child's college tuition, take the money that was going toward that bill and put it in your retirement savings.
- **Restructure your debt.** Check whether refinancing will reduce your monthly mortgage payment. Find less costly options for consumer debts, including credit cards with high interest rates. Systematically pay down your debts. And most important — don't incur any new debt. If you can't pay cash for something, don't buy it.
- **Stay committed to your goals.** At this age, it's imperative to maintain your commitment to saving. Please call if you'd like help reviewing your retirement savings program.

Advice for Saving for Children

Your child has finally finished college and started his/her first full-time job. What is the most important financial advice you can give?

Participate in a 401(k) plan as soon as possible. The quality of your children's retirement will largely be determined by the amount of money they save, and a 401(k) plan is a great place for them to start. Before marriage, a new home, or other obligations consume their entire paycheck, get them into the habit of saving. Because the contributions are deducted before they even see their paycheck, it's a great way to get them into the habit of saving on a regular basis.

Having trouble convincing them this is a good strategy? Perhaps some numbers will make the point. Assume your child starts contributing to his/her 401(k) plan at age 25, contributing $6,000 per year (substantially below the maximum contribution in 2020 and 2021 of $19,500), with matching employer contributions of $3,000. If he/she earns 8% annually, he/she could have a balance of $2,331,509 at age 65, before the payment of any taxes. What if he/she waits until age 35 to start contributing? At age 65, the balance could be $1,019,549, still a substantial amount, but $1,311,960 lower than if he/she started at age 25. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment vehicle.)*

What if your child still isn't convinced? Consider reimbursing him/her, as part of your annual gift tax exclusion, for any 401(k) contributions. You can reimburse the entire amount or offer to make a partial reimbursement.

Don't let your child procrastinate because there are too many decisions to be made. Just encourage him/her to start contributing, reassuring him/her that none of the decisions is permanent. He/she can review contribution levels, investment choices, beneficiary designations, and other matters at a later date.

If your child has the option to contribute to a regular 401(k) plan or a Roth 401(k) plan, suggest contributing to the Roth 401(k). Employer matching contributions will still be made to a regular 401(k) plan, but your child's contributions can go to the Roth 401(k). Your child won't get a current tax break for contributions made, but he/she will owe no taxes on the contributions or any earnings when withdrawals are made. This can make a huge difference in the amount of money available for retirement.

What if your child doesn't have a 401(k) plan at work? Encourage him/her to contribute to an individual retirement account (IRA). Although contributions are limited to $6,000 in 2020 and 2021 compared to $19,500 for 401(k) plans, IRAs are still a good way to save for retirement. Again, suggest a Roth IRA rather than a traditional deductible IRA, so that qualified withdrawals can be taken with no tax consequences.

Please call if you'd like to discuss this concept in more detail or would like help with examples that are more pertinent to your child's situation.

Money Personality

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finally, entrepreneurs should work with a tax professional to help reduce their taxes as much as possible, while making sure quarterly tax payments are made.

The Saver

This is the person who follows all the rules and does it just right. They fully fund their retirement accounts each year, don't carry much debt, and have plenty of savings in the bank for any unexpected expenses. While this money personality may get to retire early, they may want to stop and smell the roses once in a while.

The High-Income Earner

Professionals, such as doctors and lawyers, fall into two groups: savers and spenders. Those who fund a large lifestyle may find they have trouble funding their retirement because they've spent too much.

Big earners need to develop a financial plan so they understand how much money they will need to fund their retirement based on the lifestyle they want to live. They should also pay themselves first with a predetermined amount to saving, before buying nicer cars or bigger houses, as well as considering setting monthly spending limits.

I Need to Save?

This money personality spends their paycheck as soon as it hits their account, and in some cases, live beyond their means. They have no savings if an unexpected emergency comes up, and they are likely carrying too much debt. To be able to retire, this person needs a financial plan with a strict budget to help pay down debt and develop both long- and short-term savings.

Doing Fine and Enjoying Life

This person saves and spends. They want to enjoy life experiences along the way to retirement, such as vacations, maybe a boat, or a cabin. While they contribute to their 401(k) plan, they may not have a financial plan that includes short-term financial goals and how much they need to save for retirement.

While it is great that this money personality saves, they need to ensure that their spending isn't outpacing their savings. By developing a solid financial plan, this money personality can create a more balanced approach to saving and spending.

What's Your Money Personality?

You should determine where you fall on the spectrum of money personalities so you can develop a financial plan that suits your personality, but also helps you secure your future. Please call if you'd like to discuss this topic in more detail.

Assess Your 401(k) Plan

At least annually, you should thoroughly review your 401(k) plan. Some items to consider include:

- **Have your goals or objectives changed?** Most people use their 401(k) plan to fund retirement, although it can also be used for other things. Take time to reassess your goals and objectives, which can impact how much you contribute and how you invest those contributions. Calculate how much you'll need at retirement as well as how much you should save annually to meet that goal.
- **Are you contributing as much as you can to the plan?** Look for ways to increase your contribution rate. One strategy is to allocate any salary increases to your 401(k) plan immediately, before you get used to the money and find ways to spend it. At a minimum, make sure you are contributing enough to take full advantage of any matching contributions made by your employer. In 2020 and 2021, the maximum contribution to a 401(k) plan is $19,500 plus an additional $6,500 catch-up contribution, if permitted by the plan, for individuals age 50 and older.
- **Are the assets in your 401(k) plan properly allocated?** Some of the more common mistakes made when investing 401(k) assets include allocating too much to conservative investments, not diversifying among several investment vehicles, and investing too much in the employer's stock. Saving for retirement typically encompasses a long time frame, so make investment choices that reflect that time period. For many, that means a significant portion of their assets should be invested in growth vehicles.
- **Do your investments need to be rebalanced?** Use this review to ensure your allocation still makes sense. Also review the performance of individual investments, comparing the performance to appropriate benchmarks. You can't just select your investments once and then just ignore the plan. Review your allocation annually to make sure it is close to your desired allocation. If not, adjust your holdings to get your allocation back in line. Selling investments within your 401(k) plan does not generate tax liabilities, so you can make these changes without any tax ramifications.
- **Are you satisfied with the features of your 401(k) plan?** If there are aspects of your plan you're not happy with, such as too few investment choices or no employer matching, take this opportunity to let your employer know.

Managed properly, your 401(k) plan can play a significant role in helping to fund your retirement. Please call if you'd like help reviewing your 401(k) plan and investments.

News and Announcements

From the Alexander Household

In what can be a hectic time of year, I am finding joy in Jon Foreman's Sculpt the World project. My favorites showcase colorful rocks arranged into giant circles or swirling patterns. Upon Foreman's arrival at a beach, often near his home in Wales, he spends an average of four hours to create his work of art.

Land art is ephemeral and will eventually be reclaimed by the earth. Most often the weather and climate erase his work, but sometimes other people interfere. This is all part of the creative process, he said. "It often becomes a race towards the end as the waves draw closer. I try to stay to see the work get erased and capture the moment of impact."

Foreman chooses to see the beauty in his work's short lifespan. "I create using material that is made from that environment for that environment. The tide washes it all back to the tide line, and I come back the next day with an empty canvas to work with. If anything the fact that it's short-lived makes it more special to me." You can enjoy some of his creations at **https://mymodernmet.com/jon-foreman-stone-land-art.**

While many people would find it intimidating to work without a plan, Foreman finds the unknown comforting. "I quite like not knowing exactly how it will turn out until it's there in front of me." By having no preconceived notions of what he'll create, he is more likely to experiment and develop new facets of his work. For me, this is a useful perspective as I look forward to 2021.

May you have a wonderful year!

Carol Ringrose Alexander,
CFP®, AIF®, CDFA™, CEPS

From the Bolander Household

It's hard to believe that it was only one year ago that we were out shopping in our favorite stores for just the right gifts to make our time together with family and friends extra special. This year, it seems the delivery driver is the only one getting out, bringing treasurers from afar, although there are a few small shops that I support — while following CDC guidelines of course. Seems as though everyone wanted Christmas to come early this year. Long before Thanksgiving the radio started playing Christmas music and neighbors' houses began glowing with cheery lights. As I put out our decorations, I was reminded of the wonderful day our family had just last year going to the photography studio to capture those happy moments in time. I see those smiling faces and think how things have changed – Stella grew four inches this year and Luke, who would hardly say a word last year has become a chatter box, often quoting his favorite You Tube channels. And I understand the need to bring Christmas early this year, as Norman Vincent Peale once said, "I truly believe that if we keep telling the Christmas story, singing the Christmas songs, and living the Christmas spirit, we can bring joy and happiness and peace to this world."

Merry Christmas.

Brenda C. Bolander,
CFP®, CPA/PFS

From the Wallis Household

What a year 2020 has been! Life changed in March 2020 for most of us and it hasn't ever gone back to "normal". Will it ever? While it's easy to look back on what we've missed, I prefer to focus on what I've gained. This year, I've learned to multi-task like never before as I work from home some days and help my 12-year-old son Griffin with his middle school class work. It's good to find out that I remember some things from sixth grade Social Studies such as the American Revolution, even if my memory has been boosted by watching Hamilton on repeat.

I've learned that I can stay in my neighborhood for weeks at a time and never run out of things to do. I've put a lot of miles on my sneakers since March. I've gained a new appreciation for food trucks, that have been bringing dinner to our neighborhood twice a week since April. It's a win/win because we get meals delivered to our neighborhood and the food trucks get helpful support so their local businesses can stay afloat. I've been reminded that I love playing board games with my family and if we play dominoes or Trivial Pursuit, I may even win every once in a while. I've also faced the fact that if I'm not busy going to meetings and events every day, it doesn't make me less valuable. In fact, I may be more mindful of the meetings I schedule in the future. I've also discovered that a nice sweater can dress up a pair of yoga pants for a Zoom meeting where no one knows what my entire outfit looks like.

Of everything that life has thrown at us this year, being appreciative of close friends or family has never been more important. Even though we can't connect the same way, there's a revival of ways to stay in touch. My mom has gotten more adept at texting. Paper letters and notes have made a comeback, and calls just to say "I was thinking of you" perhaps mean more than they ever have. The biggest proponents of more time at home have been my Whippets, Dash and Jett as they soak up the extra attention. They love to lay at my feet in my home office and snuggle every chance they get. I think the world could always do with more pet snuggling.

As we move toward the New Year, we may not know what it will look like but after the flexibility required of 2020, I think we can all face it head-on. Wishing you much health and happiness for 2021.

Jennifer Wallis
Senior Vice President of Marketing

Holiday Hours:

Christmas Eve: 8:30 am - 12:00 pm — Christmas - Closed

New Year's Eve: 8:30 am - 12:00 pm — New Year's Day - Closed