RETIREMENT
INVESTMENT ADVISORS, INC.

2925 United Founders Blvd.
Oklahoma City, OK 73112
(405) 842-3443
(800) 725-4530

2952 Via Esperanza
Edmond, OK 73013
(405) 246-0404

9300 John Hickman Pkwy.
Suite 504
Frisco, TX 75035
(972) 377-2850

www.TheRetirementPath.com

left to right: Brenda C. Bolander, Joe Bowie, Randy Thurman, Carol Ringrose Alexander, Chad Rudy, and Andrew Flinton

Financial Briefs

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How to Catch Up on Retirement Savings

Are you on the other side of 40 without substantial savings for retirement? It's time to stop worrying and get down to the business of doing something about it. It's not too late, but it will take a lot of concentrated effort to get on the right track to a comfortable retirement.

Here are some strategies you can put in place to boost your retirement savings:

Estimate How Much Money You'll Need in Retirement

The first step is knowing how much you will need to live on in retirement. Most experts agree that you will need at least 70% of your preretirement income to fund your retirement. Make sure to do a detailed analysis of your likely retirement expenses.

Determine Your Income Sources

Once you have a good idea of how much money you will need for retirement, you then need to determine the income sources you'll have. Look at what your Social Security benefit will be at various ages. Do you have a pension from a previous or current employer? If you have a 401(k) plan, you need to understand what its expected value will be at retirement age.

Set Goals and Develop a Plan

If you have a gap between your income sources and the amount of money you'll need to retire, you have to put strategies in place to close the gap. Set a goal of how much you'll need to save and in what time frame. Because you're playing catch-up, you can't afford to be too conservative with your investment selections, but you can develop a well-balanced plan that will help you met your goals with a risk tolerance that is comfortable for you.

Max Out Employer-Sponsored Plans

Hopefully, you have access to a 401(k) plan or some other type of retirement account. It may be difficult, but you should try to make the annual maximum contribution, which is $20,500 in 2022. This is one of the best ways to save for retirement because it automatically comes out of your paycheck. A traditional 401(k) plan will reduce your taxable income, which will help alleviate pressure. For example, if you are in a 35% tax bracket, your contributions will only cost you 65 cents for every dollar you contribute to the account.

If you are aged 50 or older, you can also make catch-up contributions of $6,500 in 2022 for a total contribution of $27,000. And you

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Watch Out for Estimating Mistakes

When determining how much to save by retirement age, several variables must be considered, some requiring estimates that will span decades. Err significantly on those estimates and you can end up with little or no money left during the later years of your life. Three of the most significant estimating mistakes to watch out for are:

- **Underestimating how much income you'll need in retirement.** The entire point of your retirement savings is to ensure you have sufficient income to spend your retirement how you'd like, so make sure you have a good estimate of how much that will cost. Various rules of thumb indicate you'll need anywhere from 70% to over 100% of your preretirement income. At first glance, it seems like you'll need less than 100%, because work-related expenses, lunches out, professional clothes, and commuting costs will be gone. But look carefully at your current expenses and how you plan to spend your retirement years before deciding how much you'll need. If you

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How to Catch Up

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should always contribute enough to get the employer match if your employer has a matching program.

If you don't have an employer plan (or even if you do), you should start investing in a traditional or Roth IRA. You should set up an automatic transfer from your checking account to your retirement account. You can make contributions up to $6,000 in 2022 and $7,000 if you are aged 50 or over.

Downsize Your Life

By the time you retire, you will want a stream of predictable income to cover your expenses with a mixture of Social Security, a pension, and withdrawals from your retirement savings plan. If you won't be able to cover your expenses with these income sources, it may mean you need to downsize your life, which may require some sacrifices.

If you're an empty nester and still living in a big house, it has probably appreciated in value, and you may want to consider selling it and moving to a smaller home. In addition to saving on your mortgage payment, you'll save more on utilities, insurance, maintenance, and property taxes.

You may also need to think of other ways to cut expenses, such as driving a used car versus a new car or only going on one vacation a year versus two or more.

You don't want to wait until retirement to make these changes, since downsizing while you are still working will allow you to put these savings into your retirement plan.

Take a Second Job or Work Longer

If you have a serious gap in your retirement savings, you may need to consider taking a second job so you can invest the earnings. Get creative about ways to make more money. Do you have the writing skills to be a freelance writer? Maybe you're a great seamstress? A graphic designer or perhaps a programmer? Even a job as a pet sitter or dog walker may give you the extra income you need for savings.

You may also need to consider extending the time frame you are planning to work and retire later. For example, if you're 55 and want to retire at 62, contributing 20% of your income until retirement still won't be as impactful as working three more years until you are age 65.

If you wait to retire at age 70, you'll have even more time to rack up your retirement savings, and you will have fewer retirement years to cover. Additionally, if you wait until age 70 to take Social Security benefits, you could significantly increase your monthly benefit.

Pay Off Your Debt

It's not only about saving; it's about eliminating debt. If you have thousands of dollars in credit card balances, your retirement savings is most likely going to your credit card company in interest payments. Make a concerted effort to pay off your credit card balances and continue to pay them in full every month.

With every dollar you find to put toward your retirement savings, set up an automatic transfer from your checking account or a direct contribution from your paycheck. This will help to ensure the money is going directly to your retirement savings.

Please call to discuss your retirement savings plans in more detail.

Do You Really Need 70%?

A general retirement planning rule of thumb indicates that you'll need 70% to 80% of your preretirement income. But when you realize how much you need to save, it's tempting to question whether you really need even 70% of your preretirement income.

First, you should prepare a detailed analysis of your expected expenses after retirement. How much you will need depends in large part on how you plan to spend your retirement years.

How can you help ensure that your expenses will be lower? Consider these tips:

- **Pay off your mortgage.** Mortgage payments often consume 30% or more of an individual's gross income. Eliminating this expense can drastically reduce income needed for retirement. If you can't pay off your mortgage, consider selling your home and purchasing a smaller one for cash. Not only will you eliminate the mortgage payment, but a smaller home often results in lower utility bills, property taxes, and maintenance costs.
- **Get rid of other debts.** It's not unusual for consumer debt payments to equal 10% to 20% of an individual's take home pay. Try to enter retirement debt free.
- **Keep your automobile.** Instead of purchasing a new car every couple of years, keep your current car for as long as it's in good working order. That will eliminate car payments from your retirement budget.
- **Look for ways to reduce travel and leisure expenses.** Look for and use senior discounts. Plan activities for non-peak times, when rates may be lower.
- **Consider relocating.** The cost of living varies significantly from city to city and state to state. You may be able to reduce your living expenses substantially by moving to another locale. However, this is more than a financial decision. You also need to decide whether you want to move away from family, friends, and familiar surroundings.
- **Work at least part-time.** If you still don't have sufficient funds to support yourself during retirement, consider working at least part-time. Even a small amount of annual earnings can help significantly in funding your retirement.

Watch Out

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pay off your mortgage, remain in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, you might need less than 100% of your pre-retirement income. However, if you plan to travel extensively, must pay for health insurance, and carry significant debt, you may find that 100% of your pre-retirement income is not enough. You need to look closely at your current expenses and planned retirement activities to come up with a reasonable estimate.

- **Underestimating how long you'll live.** Today, the average life expectancy is 84.3 years for a 65-year-old man and 86.6 years for a 65-year-old woman. But don't use those figures without further analysis. Average life expectancy means the woman has a 50% chance of dying before age 86.6 and a 50% chance of living past age 86.6. Since you can't be sure which will apply to you, you should probably assume you'll live at least a few years beyond your life expectancy. When deciding how many years to add, consider your health and how long other family members have lived.
- **Overestimating how much you can withdraw annually from your retirement savings.** With a retirement that could span decades, it's important to withdraw a reasonable amount so you don't deplete those savings too soon. A number of factors can make that a difficult number to calculate. First, as noted above, you can't be sure how long you'll be making withdrawals. Live significantly beyond your average life expectancy and you could find yourself with little in the way of savings. Second, inflation over such a long period means you'll have to withdraw increasing amounts just to maintain the same purchasing power. Third, your rate of return on your investments will significantly affect how much you can withdraw annually. When withdrawals are being made, down markets can have a devastating effect on your savings. Not only will your investment value go down, but you will be withdrawing the same amount from a smaller balance. Thus, when the market rebounds, you'll have less capital available to participate in that rebound. Especially if a major market downturn occurs early in your retirement, withdrawing an amount that may have been reasonable during an up market may quickly deplete your assets. Thus, it's generally prudent to keep your withdrawal percentage as low as possible, perhaps 3% or 4% of your balance. With that level of withdrawal, your funds should last for decades.

If you'd like help making these estimates, please call.

Should You Stay or Should You Go?

Choosing a place to live is one of the most important decisions you can make when planning for retirement, and it's not always an easy choice to make. You'll have to weigh financial, emotional, and lifestyle issues before you can decide where you should live after you stop working. Below are some tips that may help you make your choice.

Questions to Ask Yourself

You can start your retirement housing search by asking yourself these questions:

- Where do I really want to live?
- Where can I afford to live?
- If I'd like to relocate, how much will that cost?
- Will relocating allow me to save money on housing and other expenses?
- Can I save on taxes by moving to another area?
- If I'd like to move, what price can I expect to get for my house?
- Where do my friends and family live?

Making the Choice

So, what if your answers to the above questions suggest that relocation is a good idea? It's hardly an unusual situation. Getting a fresh start in retirement is a dream for many. But depending on your current financial situation, it may not be realistic. Many still have hefty mortgage payments heading into retirement. Some people who want to relocate simply may not have the financial ability to do so.

If you are interested in moving, it pays to do your homework. Looking into housing in your ideal location is just the start. You'll also want to think about how much you can get from the sale of your current home (be realistic). Taxes are another issue. Some retirees can save money by moving from a high-tax state to one that offers tax breaks to retirees. Another aspect to consider? The cost of travel back to your original home if you still have family and friends living there.

If you're sure that relocating in retirement is the right choice for you, don't rush into a decision. Try a trial run of a month or two in your ideal destination to see how you really like living there. A place that's great to visit for a week might lose its luster after a month. In addition to obvious considerations like weather, make sure you think about amenities both fun and not so fun. Are there hospitals nearby? What about public transit in case you're eventually unable to drive? Will you be part of a ready-made retirement community or will you be on your own when it comes to making new social connections? Are the amenities you'd like to use affordable? Knowing the answers to these questions in advance can help you avoid making a costly financial mistake.

Thinking about relocating in retirement? Please call if you'd like to discuss this in more detail.

News and Announcements

From the Thurman Household

After numerous delays (15 months worth), cover issues, supply chain issues, editing battles, etc. my book, ***The All-Weather Retirement Portfolio, 2nd edition***, published by Forbes, finally has a publication date—May 3rd. It's been a … challenge.

I'm still playing pickleball. I just can't get enough. It is such a fun sport!

My son, Levi, competed in the NAGA Jiu-Jitsu world championship. He decided he wanted to compete in the "expert" division. I thought that was nuts. But he said he would learn more that way. He ended up third in the no-gi division. I think that is pretty impressive and I'm proud of his effort. A good rule though, beware of hulking grapplers with large, cauliflower ears.

My wife, Pati, is scheduled to run a marathon in June. She never stops. She has so much energy! She had a birthday on Tuesday, 2-22-22 and wore a tutu to teach her class. I'm not saying how old she is, but it does have a 2 in it.

For our company, 2021 was an exceptionally great year primarily because of so many referrals from our clients. I want to say thank you! We appreciate the referrals and know the highest compliment you can give us is the referral of a friend or client.

Randy Thurman, CFP®, CPA/PFS

From the Flinton Household

For some of you, my absence from writing a newsletter article has been noticeable and obvious. Although I'm back at it, the feelings are still the same. For the past 5 months, each time I attempted to get something down on paper, I was overcome by such strong feelings of sorrow and inadequacy that I couldn't get anything down on paper. It was during this period that I was able to recognize just how difficult these past two years have been. As I have experienced some of the greatest blessings of my life in the past two years, it has inevitably been intertwined with some of the most difficult times as well. I have said many times that I am incredibly blessed to sit and talk daily with people with much more life experience and wisdom than myself. What I failed to fully recognize and appreciate was how brief and fragile life can be, and how in the midst of a great loss, we want others to see our pain, and we also know that it's likely no one will. I've started to truly feel the pain of others in the midst of their heartache, and as such it has started to slowly form me into the person I need to be right now. Daily my heart hurts as I think of so many of you that have gone through terrible losses and heartache. And as I have experienced a loss of a relationship that was pivotal in my life, I have immediately felt inadequate for all my past interactions with those whose lives will never be the same due to their loss. I'm a very private person, yet I am being pulled to bear my heart and share my mind. I hope it reaches the right person for the right reason. Here's to a new season.

Make it a great month,

Andrew Flinton, CFP®

From the Rudy Household

I recently heard someone say, that these days there are two types of people…those that Wordle and those that don't. About a month ago, Kayla was home from college and introduced us to Wordle, an online puzzle where players have six chances to guess the 5-letter word of the day. I was hooked from that day on and now I anxiously await the next daily challenge. I appreciate the simplicity of this game. There is only one word to solve per day and everyone has the same word.

What is most surprising to me is the social aspect of the game. Amy and I ask each other if we've done the Wordle yet. We prefer to do ours in the morning, so we can talk about how we got to the answer and how many guesses it took. Kayla likes to Wordle in the evening, so she has something to look forward to. I get regular calls and texts from her either bragging that she solved the Wordle in fewer guesses than me or asking for hints. My mom in Florida and many friends are hooked on Wordle too. It's fun to share strategies and successes. Since we're only allowed to play once a day, solving the Wordle gives us a small sense of accomplishment each day.

Out of the two types of people these days, I am a happy Wordler!

Chad Rudy, CFP®

CEO Randy Thurman was honored this month by the South Oklahoma City Chamber of Commerce with the prestigious Citizen of the Year award. The award recognizes people from our community who truly embody the spirit of citizenship and being a good leader- people who make it their life's work to make our community a better place. Randy's giving spirit has been felt deeply by the community and it was important to show the impact that he has made. Please join us in congratulating Randy.