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Financial Briefs

JANUARY 2023

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 $22,500 in 2023, are deducted from your current year gross income. If you are age 50 or older, your plan may allow an additional $7,000 catch-up contribution, bringing your maximum contribution to $29,500. 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 match. 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 2023, you can contribute a maximum of $6,500 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 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

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Rules for Retirement Investing

When you start planning for retirement, you will need to determine the lifestyle you want to live and the income you will need. That way, you can define specific goals of how you are going to get there. You can increase your chances of living the retirement you want by being in-

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Pump Up

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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.

Retirement Planning for Stay-at-Home Parents

Millions of Americans are stay-at-home parents. While they may not get paid a regular salary, they perform vital work caring for children and managing the household.

A spouse who doesn't work is going to have a tougher time preparing for retirement. Obviously, no income means saving for the future is difficult. Plus, a person who doesn't work isn't paying into the Social Security system. Even if you're out of the workforce for just a few years while your kids are young, those non-working years can cause you to fall behind in retirement savings. But staying home with the kids doesn't have to mean jeopardizing your financial future, provided you have a plan.

Don't Neglect Your 401(k) Plan

Many parents work outside the home for a time before they decide to stay home. If you had a 401(k) plan before you left the workforce, don't forget about those funds when you take time off. Depending on your plan's requirements and the investment options available, you may be able to keep your money where it is, or you might want to roll over your savings to an IRA. In either case, you'll want to keep an eye on your funds, making sure you have the proper asset allocation and that your investments are rebalanced as necessary.

Whatever you do, you don't want to cash out your savings unless it's truly a financial emergency. Doing so will put you even further behind.

Set Up a Spousal IRA

Usually, you must have earned income to contribute to an IRA. But the IRS has created a special exception to help nonworking spouses prepare for retirement. It's called a spousal IRA, and works just like a traditional IRA. The husband or wife who works can contribute $6,500 in 2023 to an IRA on behalf of their spouse ($7,500 if you're over age 50). The money can go into either a traditional or Roth IRA, provided all the other requirements are met.

Essentially, using a spousal IRA allows you and your spouse to double your IRA savings. However, you do need to file a joint tax return to be eligible for a spousal IRA. One other benefit of a spousal IRA is that the assets are held in the nonworking spouse's name. That means if the couple divorces, the nonworking spouse has retirement assets that are already their own.

Set Up a SEP-IRA or Individual 401(k) Plan

You may be a stay-at-home mom or dad, but that doesn't necessarily mean you're not working in some fashion. Many people who don't have careers outside the home earn money through consulting, freelance work, or home-based businesses. If this applies to you, you might want to consider setting up a SEP-IRA or an individual 401(k) plan to help you save for retirement. Assuming you earn enough money, you'll be able to save more than you would in a spousal IRA.

Don't Stop Saving

Whatever you do, don't forget about retirement saving just because you're out of the workforce for a while. Set aside what you can for the future, even if it's just a few dollars a month. That can be hard to do when your income is limited, but it's still important. You can also encourage your spouse to maximize their own retirement savings so you are both on track for retirement.

Need more help getting your retirement plan on track even if you're not working? Please call to discuss this in more detail.

Retirement Investing

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formed and engaged in your retirement planning process. Following are some basic rules that can help you prepare for retirement planning.

Investment Options

The first step is to understand your investment options. When building a retirement portfolio, you should take advantage of plans offered by your employer as well as individual investments. You'll want to make sure you understand both the risks and the rewards of various types of investments and how they fit in your portfolio. Here are the retirement vehicles to consider:

- **401(k) plans and Roth 401(k) plans** are employer-sponsored plans that offer tax advantages, and in many cases, matching contributions from your employer.
- **A traditional IRA** is a retirement savings account that allows you to invest with pretax income and grows tax deferred until you take distributions.
- **A Roth IRA** is also a retirement savings account allowing you to invest with after-tax money, and then qualified distributions can be withdrawn tax free.
- **A SEP** is a plan for self-employed people where investments are immediately 100% vested.
- **A SIMPLE IRA** is a retirement plan for small businesses with fewer than 100 employees.

Start Investing Early

The sooner you start investing for your retirement, the greater chance you have of building a significant portfolio. Time is your friend when it comes to investing because you have many years to invest, you have time to rebound from losses, and most importantly, you have the power of compounding.

For example, let's say you are 20 years old and make a $10,000 investment that grows at 5% per year until you retire at 65 years of age. If you reinvest your gains, your investment will be worth almost $90,000. If you invested the same amount of money at age 40 assuming the same growth rate, your investment would be worth about $21,000. This is a simple example, but it illustrates that the longer you have to invest, the more money you could have at retirement.

If you are younger, you should consider higher-risk investments, such as stocks, because of the potential for higher returns. You will also have a longer period of time to recover from any losses.

Know Your Numbers

To make good financial decisions, you need to know where you stand financially, and also where you need to be by retirement. You should regularly calculate your net worth, which is the difference between your assets and your liabilities. Your assets should include cash, investments, property and personal property, such as jewelry, art, cars, etc. Liabilities include the debt you owe, such as mortgages, auto loans, credit cards, student loans, and medical bills. Once you understand your financial position, it will help you determine what you will need to do to reach your retirement goals.

Set Goals

When setting goals for your retirement, you'll want to be as specific as possible, so that you can measure your progress. Examples of goals include:

- I want to retire at 65 years of age.
- I want to take one large trip per year.
- I want to move to a smaller home by the time I am 60 years old.
- I will need $50,000 per year to cover bills and expenses.
- I will need $1,000,000 to cover 20 years of retirement.

You should review your goals on a regular basis, because they may change over time as your life takes twists and turns and your financial situation changes.

Don't Let Emotions Rule

Emotions are probably the biggest nemesis to investing. When your investments are doing well, you may become greedy and underestimate risks. When your investments perform poorly, fear may cause you to pull out of the market, so you can't take advantage of any recovery.

It is important to keep your emotions under control during periods of volatility so that you can make good decisions and rebound from losses. Try to maintain a balanced portfolio that will better weather both the ups and downs of the market.

Read the Fine Print

Make sure that you understand the fees associated with your investment and retirement accounts, including transaction fees, expense ratios, administrative fees, and loads. Your account statements will show the fees you are paying and the prospectus for the funds you own will show information on expense ratios. While a prospectus is not necessarily a fun read, you should take the time to review it carefully because it provides a lot of important information about your investments.

Admit When You Need Help

Investing is not easy. Don't take risks with your retirement by not seeking help when you need it. Please call if you'd like to discuss this in more detail.

News and Announcements

From the Flinton Family

"Only those who will risk going too far can possibly find out how far one can go." —T.S. Eliot

When was the last time you did something for the first time? It's been a prompt for our family for the last couple of years and has proven to be a great source of adventure and memory-making. Last month we visited Colorado for our first winter snowboarding trip, and it once again provided us with new activities and new memories. Our daughters are comfortable with board sports in general, so snowboarding was another natural progression for them. Being up on the snow-covered mountains enjoying majestic views and taking in the crisp air definitely hooked Samantha and Emerson. They said it is by far their favorite board sport now. We never feel compelled to "pack it all in" when we travel, which allows us to enjoy plenty of downtime and not turn vacations into stressful work. This proved to hold true for us once again. Even with an unplanned trip to the ER for dad (I am OK), it was a wonderfully pleasant trip that is sure to have us coming back to the slopes for years to come. When was the last time you did something for the first time? Whether it's a new cuisine you've never tried, an activity you've never attempted, or even an act of service you've always said you wanted to do, I would encourage you to try something new for the first time. It may just be the beginning of new memories that you share for a lifetime.

Wishing you a wonderful New Year,

Andrew K. Flinton, CFP®

From the Alexander Household

One of my goals is to make the financial transition as easy as possible when my time comes. I had the good fortune to help my mother-in-law with her arrangements as she battled cancer. She was organized and knew exactly what she wanted. By communicating her wishes, she made it easier to fulfill them.

I update my end-of-life instructions periodically. The current version includes where to find essential documents like wills and drafts of obituaries, memorial service and burial arrangements, contact information for family members, where to find financial accounts and the safe deposit box, details about insurance policies, contact information for professionals like our attorney and CPA, who has keys to the house, password, and digital asset management, and what we want for our children.

In our work as advisors, we see the difference between well-designed plans and no plans at all and the impact on families during the grieving process. If you are interested in optimal organization, I recommend "In Case You Get Hit by a Bus: How to Organize Your Life Now for When You're Not Around Later" by Abby Schneiderman and Adam Seifer. If you would like to discuss optimizing your plan, I would love to help.

May your life be blessed abundantly!

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

From the Bolander Household

Whew – it's January again! After the hustle and bustle of the holidays, it is good to reflect and plan for the year ahead. I know some folks like to set aside New Year's Day for this custom but I'm usually too exhausted and just want to "veg-out" watching the Rose Parade and football and eating black-eyed peas. (We're not superstitious but I like the fun of the tradition.) Every year it seems more important to schedule time with our extended family, as none of us is getting younger! With birthdays, holidays, sports and cultural events, and a little vacay here and there, the calendar fills up pretty fast.

However, unexpected things always pop up. In the last few weeks of 2022, our granddaughter Stella had two band performances. The first one was an introduction and demonstration for parents (and grandparents) of sixth graders, and the other was the full middle school concert. Then Stella had her first piano recital. She did well and we were all very proud of her. It was also interesting to see the other performances that included everything from drums to ukulele. The drummers fascinated our grandson Luke, and he was very excited to receive his own set of electronic drums for Christmas. So, 2023 should be another "bang-up" year!

Happy New Year!

Brenda C. Bolander,
CFP®, CPA/PFS