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Financial Briefs

AUGUST 2023

Enjoy Life and Save for Retirement

Some people worry that when saving for retirement, they have to give up things they enjoy. While there needs to be a balance between spending and saving, it doesn't mean you can't enjoy life.

Look at Your Current Situation and Set Goals

You should start by reviewing how you live and how you save. Make a list of questions about your lifestyle to assess what is most important to you:

- Am I happy with my lifestyle?
- Are there things I want to pursue?
- Do I have enough money to support my lifestyle and the things I want to pursue?

Prioritize your responses by order of importance, so that you can budget for the things you really want to do.

Next, you will want to make a list of how you are managing your finances and savings:

- Am I able to cover my bills?
- How much am I saving for retirement?
- Am I saving enough for retirement?
- How much disposable income do I have every month?

Once you have answered these questions, it is time to look at your responses to figure out how you can accomplish both. You'll want to develop or revise both lifestyle and retirement goals, being as realistic as possible with your current financial situation. Also make sure your goals are specific, so you can assign dollar

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Saving and Life Planning

Knowing when and how to save for different periods of your life can seem a daunting task. And after all, everyone is different, so how can one plan or system really apply across the board? The truth is that while everyone should have a savings plan customized to their own circumstances, there are some benchmarks and guidelines that are good to follow to meet financial goals.

When you're in your twenties

This is the time in which you'll be making the least amount of income, but will have fewer expenses as far as dependents go.

Your priorities should focus on creating a safety net to avoid taking on potentially crippling debt in case of dire need and jump-starting your retirement savings so it has as much time to grow as possible.

You should focus on building a readily available emergency fund equal to three to six months of living expenses. This means it should be liquid, in short-term savings vehicles like a bank account.

Begin putting money into a 401(k) plan or individual retirement account (IRA). Even if you can only contribute small sums, the long-term effects of compounding will work in your favor down the road.

Additionally, it is a good idea to start saving for a down payment on a house. Housing prices and interest rates will only continue to rise.

So if you believe you will be in the same place for at least the next 2-5 years and your area's housing market can bring a mortgage payment in at or under your current rent payment, you may as well begin to build some equity in home ownership.

When you're in your thirties and forties

Priorities in this stage of life begin to diverge a bit more. If you have children, it is important to begin saving for their education. Tax-advantaged 529 college savings plans are not very flexible, but they score high marks when it comes to

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Enjoy Life

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figures to them, such as:

- Golf once per week.
- Save $500 per month in retirement accounts.
- Travel abroad once per year.
- Establish an emergency account with six months of income.

Make a Plan

Now that you have established your goals, you need to figure out if you can make it all work. As part of your budget, add both your lifestyle goals and your retirement goals with specific dollar amounts for each.

If you can't meet all of your goals within your budget, you will have to make decisions about what is most important. You should not put your retirement goals in jeopardy, nor should you give up on your lifestyle goals. You either need to look for other things you can cut from your budget or find ways to earn more income.

If golfing once a week is really important to you, what can you give up to make that happen? If you pack a lunch instead of eating out, will that be enough money to cover your weekly golf game? It all comes down to what is most important without putting off saving for retirement.

Also assess your job. Are you making enough money for the type of job you have? Are you happy with your job? Is it worth trying to find another job that pays more money? Changing a job takes time and energy, but you need to decide if it is an option so you have more disposable income.

Review and Reassess

You will want to review your goals and budget on a regular basis to determine if you need to make adjustments, especially if you are having trouble accomplishing your goals within your budget. Also, as time goes by, you may find that your goals change and you need to adjust your plan as well.

Please call if you'd like to discuss this in more detail.

Should You Borrow from Your 401(k) Plan?

For many people, their 401(k) account represents one of their largest financial assets. While designed to provide a source of income in retirement, the Internal Revenue Service (IRS) allows plan sponsors to permit participants to borrow from their accounts before they retire.

But tapping into your 401(k) may jeopardize the lifestyle you're hoping for once you retire. So is it ever okay to borrow from your 401(k) plan?

The general consensus is that spending today what you've put away for tomorrow is a bad idea, especially if you're planning to spend on discretionary purchases. If you're using your account as an alternative to a credit card, it's most likely a sign that you're living beyond your means and probably should look for ways to cut back your spending.

However, under certain circumstances, borrowing from your 401(k) plan may make financial sense. Before you take out a plan loan, though, it's important to weigh the pros and cons.

The Advantages of 401(k) Loans

If your family is suffering financial distress and your credit is poor, a 401(k) loan might be your only option for a loan.

The terms can also be quite generous: you're allowed to borrow half of your account value, to a maximum of $50,000, and the rate is generally very competitive with rates on unsecured consumer loans — typically 1% above the prime rate, although this will vary by plan.

Finally, application fees, if your plan charges them, are generally much lower than bank fees.

Plans must also allow hardship withdrawals, but specific requirements must be met to qualify. In addition, the withdrawal is subject to income taxes and early withdrawal penalties.

Because a 401(k) loan isn't subject to income tax or penalties, it's likely a better alternative.

In addition, because you're paying yourself back with interest, your loan retains some value as an asset that provides a positive return.

The Disadvantages

The first thing to realize is that you have to pay the balance with interest within five years, unless the proceeds are being used to purchase a principal residence (then you can repay over a longer time period).

Next, consider how secure your job is, because if you no longer work for your plan sponsor, you may have to repay the entire loan balance within 90 days.

Otherwise, that amount is considered a withdrawal; and if you're not yet at least 59½ years old, you'll owe a 10% penalty in addition to income taxes.

A plan loan also presents some other possible disadvantages:

Opportunity Cost. Money taken out of your plan can't take advantage of bull markets. So even though your interest payments are providing some return, having your money out of the stock market could significantly reduce how much you'll have when you're ready to retire.

Suspended Contributions. Make sure you won't have to reduce or stop new 401(k) contributions, because you are struggling to make your loan payments.

Taxation. Loan payments are made from after-tax income, and interest paid on the loan is not tax deductible. Thus, other types of loans, such as home-equity loans, may be cheaper on an after-tax basis.

If you're seriously thinking about taking out a loan from your qualified retirement plan, it's important to assess its short- and long-term consequences and consider alternatives.

Please call if you'd like to discuss this in more detail.

Saving and Life

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state and federal tax breaks, high contribution limits, and age-based options. An Education Savings Account (ESA) has lower contribution limits, fewer state tax breaks, and no real age-based options.

Although it ultimately depends on which state you live in, a 529 college savings plan is a good way to combat the rising tuition costs you and your children will face in the future.

When you're in your fifties

This is usually the peak of your earning years and when many parents have started weaning their children off full financial support.

This means that retirement contributions should be the largest yet, and federal limits on annual contributions have a higher ceiling to accommodate this greater amount of saving.

In 2023, the limit for IRA contributions for those under 50 is $6,500, but those 50 and older can contribute up to $7,500. The limit for 401(k) plans is even more generous, with under-50-year olds able to contribute up to $22,500 while the rest do not reach their ceiling until $30,000.

If you are in your fifties and you're worried that you have only saved half of what you'll need by 65, you are not alone. This high-earning, high-contributing time is when many people make up the difference and still retire with a well-funded account.

When you're in your sixties/getting close to retirement:

At this time, you should still be contributing more than ever to your accounts and acquiring assets for your retirement.

With less than five years left before you retire, consider changing your portfolio in favor of more lower-risk investments.

Please call if you'd like to discuss this in more detail.

Nurture Your IRA

It's tempting to pay little attention to an individual retirement account (IRA). After all, with a maximum contribution of $6,500 in 2023 ($7,500 if you are over age 50), how much can an IRA contribute to the vast sums you'll need for retirement? The answer is plenty, especially if you follow these tips:

- **Start contributing as soon as possible.** That way, tax-deferred or tax-free compounding of earnings can have a dramatic impact on your IRA's ultimate value. Consider the following example. Four individuals, ages 20, 30, 40, and 50, each contribute $5,000 to an IRA this year. What will that amount grow to when each person reaches age 65, assuming an 8% annual rate of return? The 50 year old will potentially have $15,861, the 40 year old will have $34,242, the 30 year old will have $73,927, and the 20 year old will have $159,602. Compounding of earnings turned the 20 year old's contribution into a much larger balance.*
- **Contribute every year until you reach retirement.** Even if you can't afford the maximum contribution, contribute something every year. Over a period of time, a modest investment program can grow to a significant sum. Assume that at age 30 you start contributing $5,000 per year to an IRA, earning 8% compounded annually. After one year, you'll have only $5,400. But that will grow to $29,333 after five years, $72,433 after 10 years, $228,810 after 20 years, and $861,581 after 35 years, when you turn age 65.* (Keep in mind that an automatic investing program, such as dollar-cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investments, consider your financial ability and willingness to continue purchases through periods of low price levels.)
- **Select investments with care.** Your IRA should be a long-term investment vehicle for retirement, so your investments should be appropriate for that long time frame. Even modest changes in your rate of return can substantially impact your IRA's ultimate value. For example, assume you have $10,000 in your IRA, which will be invested for 30 years. If you earn an average rate of return of 6% compounded annually, your balance will equal $57,435. Increase that return to 8%, and your ending balance will equal $100,627, a difference of $43,192.*
- **Fund your IRA at the beginning of the year, rather than at the end of the year.** This allows your contributions and earnings to compound for a longer period. For example, assume you are 30 years old and make $5,000 IRA contribution at year-end for 35 years. If you earn 8% compounded annually, your IRA balance would equal $861,584 at age 65. Make the contribution at the beginning of the year instead, and your balance would equal $930,511, a difference of $68,927.*

Please call if you'd like to review strategies to help maximize your IRA's value.

** These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment. They do not take into account the effects of commissions or any taxes that may be due.*

News and Announcements

From The Thurman Household

My son, Levi attended a "Grapplers Retreat" where he got to roll with World Champions in Jiu-Jitsu. He had a great time and learned a lot. He just earned his purple belt in 3 years. It is quite an accomplishment. I'm proud of his effort. He is now allowed to do certain holds previously not allowed for lesser belts due to the risk. He's excited because he really likes these holds and is very good at it. Competitions are going to be even more interesting.

My wife Pati completed the Light at the End of the Tunnel marathon in Seattle. 26.2 miles of trail running. She is now training for a 105 mile bike ride. Yeah, it's crazy.

Outside of work, I've been doing book signings and working on my next two books, a rewrite of The Richest Man in Babylon- The easy-to-read edition and The Five Steps to Finding a Financial Advisor You Can Trust. I'm hoping to get both out before the end of year. I've pledged all profits of The Richest Man in Babylon to the Oklahoma Society of CPAs financial literacy efforts. Outside of that, I'm still playing lots of pickleball.

Life is good. Make it a great month,

Randy L. Thurman, CFP®
CPA/PFS, CEO

From the Flinton Household

"The only thing that is constant is change."
– Heraclitus of Ephesus

With the school year getting underway in the coming days, there have been numerous changes around our house. Failing fast and moving on is a lesson I've attempted to instill in my daughters Emerson and Samantha, and I think the idea is starting to take hold. The more difficult extension of that premise is letting go of something you love and enjoy, for something that you would love and enjoy even more. Emerson informed us that after close to 8 years of dance, she is ready to move on to her next endeavor. Sure, there was a brief moment where I wanted to hold on to what we've always done, and then I remembered my own advice. She has recently found that she loves tumbling and flipping around and that moving to a cheer/tumbling squad is her new activity of choice. Samantha is also a 7th-grade cheerleader at the school, so they have so enjoyed that crossover and compatibility with each other. However, dance is still Samantha's happy place. I know that as we continue through their school years, they will inevitably have even more difficult choices to make regarding how and where to spend their time. My hope is that they continue to try new things, make new friends, and stretch themselves beyond their comfort zones. It's just another lesson that I may need to review for myself. Here's to trying something new, with someone new.

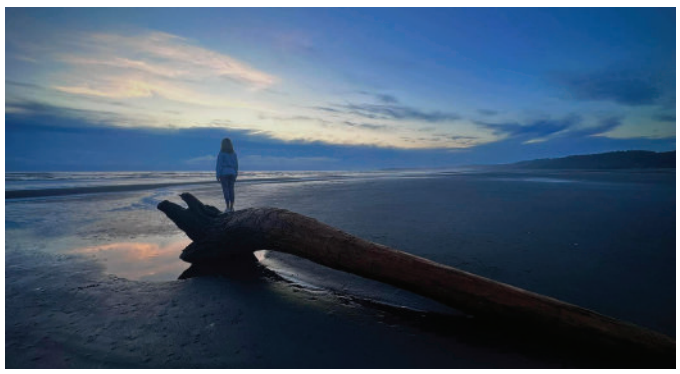
Make it a great month,

Andrew K. Flinton, CFP®
President

From the Wallis Household

"You will love the ocean. It makes you feel small, but not in a bad way. Small because you realize you're part of something bigger."
-Lauren Myracle

My family and I recently returned from a magical vacation to the Olympic Peninsula in Washington State. Being from Oklahoma, it's hard to visualize just how enormous this part of the country is. We rented a house on the beach and drove into the park each day to tour rushing waterfalls, ancient-growth forests, and sea stacks along the ocean. We walked along the spongy forest floor dotted with ferns among giant trees, some of which are more than a century old.



For the first time ever, we drove out onto the beach. As we waited for sunset, I found myself drawn to the water's edge. It's easy to get dismayed by the day-to-day and let your problems loom large in your life. I stood there with the salty breeze washing over me, with only waves as far as I could see. I was overwhelmed by the vastness of the living, heaving ocean. There I stood on the brink, just a tiny speck. In the big scheme of things, we are here but for a moment. How will we make the most of that time? How do we ensure that the ripples of our presence will still be felt when we are gone?

Jennifer Wallis, BFA™
Senior Vice President