RETIREMENT INVESTMENT ADVISORS, INC.

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

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

www.TheRetirementPath.com

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top row, left to right: Chad A. Rudy, CFP®, Randy L. Thurman, CFP®, Andrew K. Flinton, CFP®, and Alexx V. Peralta, CFP®
bottom row, left to right: Sylvia L. Sterling, CFP®, Brenda C. Bolander, CFP®, and Carol Ringrose Alexander, CFP®

Financial Briefs

AUGUST 2024

What Should Your Financial Plan Include?

At the core of achieving your financial goals is a solid financial plan. While it may seem like a daunting task, a written plan can help you stay on track. Many people are not exactly sure what a written financial plan should include, so the following provides an overview.

Goals

Every plan has to start with goals. If you don't have goals, you won't know what you are aiming to achieve with your finances. Think about various aspects of your life. Do you have children to send to college? Do you want to buy a house? Do you want to get out of debt? When do you want to retire?

Identifying your goals is what sets the plan in motion. Now it's simply a matter of what steps you are going to take to meet those goals.

Budget

Don't miss this step, because you need to know what money you have to apply toward your goals. Your budget will help you understand how much you are spending monthly compared to what you are earning. When you have a better understanding of where your money is going, you can then figure out how to redirect the money to help achieve your goals. Many think of a budget as a means to limit themselves, but it is actually the opposite. When you have control over your finances, you are enabled to make much better decisions about the things that are really important to you.

You will want to set up your budget based on necessities and discretionary expenses. Your necessities are payments you have to make, such as your house payment, taxes, insurance, and other debt payments. A secondary necessities category should include items such as utilities, groceries, and transportation. The reason to split these expenses into two categories is that the first category includes nonnegotiable expenses, while you have more control over the secondary expense category. The final category is discretionary expenses, such as entertainment, vacations, and shopping. This category should include things that can be cut without seriously impacting your life.

Now you will know what expenses you can reduce and others that you can eliminate, so you can put more money toward your goals.

Emergency Fund

Setting up an emergency fund is often ignored so that money can go

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Debt and Your Retirement

Most people's vision of retirement not only involves freedom from work, but also, freedom from debt. A debt-free retirement is a laudable goal, but it's one that has become increasingly difficult for many to achieve. Mortgage, credit card debt — even student loans — now follow people into their golden years, and that can have serious consequences for their financial health.

The Debt-Free Retirement Goal

When you retire, you stop actively earning income and start living on your savings. If you're still paying off debt, those payments will be another fixed expense, which means you'll have to draw more from your nest egg and have less to spend on things you truly enjoy. By going into retirement debt free, you'll lower your living expenses, which will make that nest egg last longer.

Reducing Debt before Retirement

If at all possible, you'll want to eliminate your debt before you retire. Of course, some types of debt are worse than others. High-interest credit card debt can be a significant burden, so you'll want to eliminate

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Financial Plan Include?

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toward other goals. But this step is imperative because you never know when you are going to be hit with unexpected expenses. You should set up an account that is earmarked for emergencies only. Most experts agree that you should have three to six months of income in your emergency fund to cover the unexpected.

Tackling Debt

You can only cut your budget so far to free up money for your goals, so you will need to pay off debt to really make progress toward saving. You can apply the money you were directing to your emergency fund to reducing your debt.

Tackle one debt at a time. You may want to start with the debt that has the highest interest rate and then move on to the next debt. Each time you pay off a debt is a victory, because you can then apply that payment toward reaching your goals.

Saving for Retirement

For the majority of people, this is their most significant goal. This is one goal you should start saving for as soon as possible. As you pay off your debt and get pay increases, you can then start putting more money toward your retirement savings. Start by trying to contribute 10% of your annual salary and then increase that percentage as more cash becomes available. Hopefully, your employer offers a retirement savings plan such as a 401(k) plan, but if not, you should set up your own traditional IRA or a Roth IRA.

Other Goals

Chances are you have other goals to save for in addition to retirement. Regardless of what they are, you will want to prioritize your other goals in order of importance, so as other funds become available, you can apply them to what matters most.

You should consider setting up automatic deductions from your paycheck or checking account directly to your savings accounts. Doing this will help you save for your other goals and it will be less tempting to spend the money elsewhere.

Insurance

Most people cannot save enough money for all the things that can go wrong, so insurance needs to be a fundamental part of your financial plan. You will most likely need life insurance, health insurance, auto insurance, and homeowner's insurance.

Insurance is designed to protect your assets. If your home is damaged from a fire or a storm, your insurance will cover the repairs, and you won't have to use your financial resources. Likewise, auto insurance will pay repair claims that you would otherwise have to find the funds for, and life insurance is an important way to protect your family if something were to happen to you.

Estate-Planning Documents

Many prefer not to think about this, but you will want to protect your family upon your death. If you fail to develop proper estate-planning documents, your family will end up in probate court trying to figure out how to distribute your assets, which could also end up eating away at your assets.

By developing a will or other estate-planning documents, you will be giving your final direction as to how you want your assets to be handled after you pass away. You may want to consult with an estate-planning attorney to help you set up these documents. Even though this is something you may not relish doing, you will most likely feel great comfort in knowing that your loved ones will be taken care of after your death.

Please call if you'd like to discuss your financial plan in more detail.

Credit Issues as You Age

While obtaining credit can be just as important for older individuals as it is for younger ones, older individuals often have unique credit issues. Waiting until after retirement to apply for a loan can result in the loan being rejected because your income is much lower. Or, if one spouse dies, the surviving spouse may find that lenders want to close accounts or the spouse may not have a sufficient credit history to apply for credit on his/her own.

To help ensure that you don't have credit problems as you age, consider these tips:

- **Apply for major loans while you are still working**. If you are getting close to retirement and know you'll need a loan, perhaps for a retirement home or new car, apply for credit a few years before retirement.
- **Make sure that credit cards are obtained as joint accounts.** If you have an individual account with your spouse listed as an authorized user, the lender can close the account if you die. However, if the account is a joint one, the creditor cannot automatically close the account or change its terms. The lender may require your spouse to update the application if the lender suspects that he/she does not have adequate income for the credit limit.
- **Ensure that both you and your spouse have a good credit history.** Review your credit reports, ensuring that all information is accurate and that you both have sufficient history. That way, either of you will be able to obtain credit on your own if needed.
- **If you are denied credit, find out why.** It could have been an error, or you may convince the lender to consider other information. You may also be able to negotiate a compromise with the lender. For instance, if the lender is concerned about your age when considering a 30-year mortgage, perhaps a 15-year mortgage would be acceptable.

Debt and Your

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it as quickly as possible. Look for areas in your budget where you can cut back and make extra debt payments, or consider a second job to make extra payments. If you have a car loan and are close to retirement, consider selling the car after you quit working, since many people find that they no longer need multiple vehicles in retirement.

Getting debt-free before retirement may mean aligning your mortgage payoff date with your retirement date; you may be able to bring your mortgage payoff date closer by making extra payments. Often, retirees want the peace of mind that comes with knowing they'll own their home when they retire. But that accelerated payoff plan might not be right for everyone. If you have a relatively low-interest mortgage, no other debt, and are already maxing out your retirement savings, you may feel comfortable sticking with your standard repayment plan, especially if you can get more from investing the money that you'd otherwise use to make extra mortgage payments.

One thing you shouldn't do: take money out of your retirement accounts to pay off credit card or mortgage debt. If you focus all your financial resources on paying off your loans, you run the risk of retiring with inadequate savings. Another potential misstep: prioritizing debt payoff over saving. While you don't want to be saddled with excessive debt, you also don't want to end up cash poor in retirement, without enough money to meet everyday expenses.

Debt in Retirement

Unfortunately, many people still end up nearing retirement holding a significant amount of debt. If that's your situation, you have several options. One is to delay retirement for a few years while you concentrate on paying off debt. Plus, if you continue to work, you're not tapping your nest egg, and it can continue to grow. In addition, if you delay claiming Social Security, your monthly payment will increase by up to 8% a year until you reach age 70.

If you must enter retirement with debt, you may need to pare down your lifestyle — traveling less frequently, moving to a smaller home, or giving up your boat or RV — to reduce debt and minimize the risk of outliving your retirement savings. You could also continue to work part-time or as a consultant. That can bring in extra income, and many people enjoy a more gradual transition to full retirement.

Finally, know that going into retirement with debt poses some other, specific risks. While most creditors can't garnish your Social Security payments, the federal government is an exception. If you owe back taxes, student loans, alimony, child support, or certain other types of payments, you may lose up to 15% of your Social Security benefit.

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

Financial Rules of Thumb

Financial rules of thumb are designed to provide quick guidelines for your finances. However, you shouldn't blindly follow them without giving thought to your personal circumstances. Some of the more common financial rules of thumb include:

Save 10% of your gross income. While this will give you a good start, it's typically the minimum, not the maximum, you should be saving. Analyze how much you'll need for your financial goals, and then work backwards to cal**culate how much to save.**

Plan on spending 80% of your preretirement income during retirement. This may be true if you don't plan to be very active during retirement, but more and more people expect retirement to include extensive travel and expensive hobbies. On the other hand, if you've paid off your mortgage and your children have finished college, you may need less than this.

Set the percentage of stocks in your portfolio to 100 minus your age. With increased life expectancies, this can result in a portfolio that is too heavily weighted in income investments. Set your asset allocation based on your risk tolerance and time horizon for investing. Stocks should be considered for long-term financial goals of 10 years or more.

Keep three to six months of income in an emergency fund. While an emergency fund is a good idea, how much you keep in that fund will depend on your circumstances. You may need a larger fund if you are the sole wage earner in the family, work at a seasonal job, own your own business, or rely on commissions or bonuses.

Pay no more than 20% of your take-home pay toward short-term debt. Once considered a firm rule by lenders, you may now be able to obtain loans even if you exceed this amount. However, don't become complacent if you meet this rule of thumb. Try to reduce your debt or at least reduce the interest rates on your debt.

Keep your mortgage or rent payment to no more than 30% of your gross income. While you can obtain a mortgage for more than that, staying within this rule will help ensure you have money to devote to other financial goals.

Obtain life insurance equal to six times your annual income. Different individuals require vastly different amounts of insurance, depending on whether one or both spouses work, minor children are part of the family, or insurance is being obtained for other needs, such as to fund a buy-sell agreement or to help pay estate taxes. Thus, you should determine your precise needs before purchasing insurance.

News and Announcements

From the Flinton Household

"As you walk down the fairway of life you must smell the roses, for you only get to play one round."
-Ben Hogan

I joke that I used to play a lot of golf, B.C. (before children). It's catchy, quick, and the truth. In college I would easily play 50 or more rounds per year. In the past decade, I've averaged 1-2 per year. With Samantha playing golf this past spring, I've been anticipating getting on the course and playing 9-holes with her. We finally made it a priority and were able to get out on the course, just the two of us. My favorite time to play golf is either first thing in the morning to enjoy the sunrise, or during a beautiful evening while watching the sunset. We lucked out on the latter and had the entire 9-holes to ourselves. We had a great time (talking shop about golf, course etiquette, thinking around the course, etc.) spending a couple of hours together, uninterrupted. It made me recognize the desire and need to spend more one-on-one time with both Samantha and Emerson. As they continue to get older, and face more and more grown-up and consequential decisions, making the time and space for them becomes even more crucial. I certainly look forward to more time on the course with Samantha, and Emerson, but more importantly I look forward to continually making our time together intentional, personal, and meaningful for them. I know they will be out of the house before I blink, but for now, I still have a willing and captive audience.

Make it a great month,

Andrew K. Flinton, CFP®
President

From the Alexander Household

When we travel for Luke's soccer matches, we don't usually have time for sightseeing. Due to the heat at the regional competition in Lakeland, Florida, the team played at 7:15 a.m. It was the first time Luke had played under lights in the morning.

When Kerry was out for a long walk, he discovered Frank Lloyd Wright Way. Because Kerry's mother, Nikki, loved Wright's work, we generally visit his buildings when we can. To our surprise, the Florida Southern College campus features the largest single-site collection of Frank Lloyd Wright architecture in the world. Twelve original Wright buildings were constructed between 1941 and 1958. Another of Wright's designs, a Usonian house originally intended for faculty housing, was completed in 2013. We spent the afternoon exploring the campus, buildings and Water Dome. Wright envisioned the Water Dome fountain that was completed in 1948 as the campus centerpiece, but it was a flat pool, and then a concrete plaza for decades. An extensive restoration with 74 nozzles that can reach 45 feet was finished in 2007. It is beautiful!

It rained during our walk, so we made good use of Wright's Esplanade, which stretches more than a mile. It features uniformly designed columns that are said to evoke the orange trees from the prior owner's citrus grove. We explored the campus on June 22, which was Nikki's birthday. It was the perfect activity for a special day.

Carol Ringrose Alexander, CFP®
AIF®, CEPS, RLP®, CDFA®
Executive Vice President

From the Sterling Household

It's back-to-school time, again! Avery and Eli had some fun adventures this summer. Eli took a trip to Chicago to watch a Cubs game and explore the city, and Avery spent two amazing weeks in Japan with the Wings of Rotary exchange program. They both had a blast.

Eli is starting his freshman year of high school and Avery is a senior this year, both at Yukon. (Go Millers!) It's hard to believe that I have two high schoolers and that Avery will be headed off to college this time next year. It certainly goes fast.

Having a high school senior makes time feel all the more precious. It's as if everything is a countdown of lasts. We are simultaneously talking continuously about the future and attempting to cherish the present as time slips away. There is a quote by Ralph Waldo Emerson that I love, "This time, like all times, is a very good one, if we but know what to do with it." I am excited for Avery for this upcoming chapter of life that lies ahead and am thankful for all the years I've had her at home. I'll certainly be soaking up this last year.

Sylvia L. Sterling, CFP®, CDFA®
Senior Vice President

Retirement Investment Advisors, Inc.
Holiday Hours

Labor Day
Monday, September 2, 2024 - Closed