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Financial Briefs

MAY 2025

Take Charge of Your Debt

One of the surest ways to sabotage your financial goals is to take on an excessive amount of debt. If debt is hampering your ability to pursue your financial goals, consider these strategies:

- **Get a handle on your debt.** List all your debts and monthly payments, sorting them from highest to lowest interest rates. Then calculate your debt ratio, which equals your monthly debt payments (excluding your mortgage) divided by your monthly net income. The general rule of thumb is that your debt should not exceed 10% to 15% of your net income. Yet don't become complacent if your debt is in this range, since even that amount consumes a large portion of your monthly income.
- **Watch your credit card debt closely.** Credit card balances typically carry higher interest rates that are not tax deductible. The best strategy is to only use credit cards if you can pay the balance in full, thus eliminating interest payments. If you can't manage that, at least make sure to pay more than the minimum payment. If you carry a balance on your credit card, call the company and ask for a lower interest rate. Those having difficulty controlling credit card purchases should consider more drastic measures, such as refraining from using credit cards until debt is under control. Instead, only use cash or a debit card, which automatically deducts charges from your bank account.
- **Don't prepay your mortgage unless all other debts are paid in full.** In general, interest paid on mortgages that originated in 2018 or later with balances of up to $750,000 and mortgages that originated before 2018 with balances of up to $1,000,000 is deductible on your federal tax return, provided you itemize deductions. Interest on up to $100,000 of a home equity loan is also deductible as long as the proceeds were used to buy, build, or substantially improve the home that secures the loan. Also, interest rates on mortgages and home-equity loans are typically lower than rates on other consumer debts. Thus, you should

Continued on page 2

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 long-term 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 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

Continued on page 3

FR2025-0113-0001

Take Charge

Continued from page 1

pay off your consumer loans before paying down your mortgage. Start by paying extra on the card with the highest interest rate. Once that debt is paid in full, move on to the next highest interest rate, continuing until all your debt is paid in full.

- **Be cautious when using a home-equity loan to pay off consumer debts.** While it may be a good strategy in theory to replace higher interest consumer debt with a lower interest home-equity loan with tax-deductible interest, the danger is that you will just run your consumer debts up again. Only use this strategy if you make sure not to overuse your credit cards in the future.
- **Work on your spending habits.** Face it, you're probably in this situation because you have trouble controlling your spending. Put yourself on a budget and stick to it. Look for ways to reduce spending, so you'll have more money to pay down debt.
- **Compare interest rates at several lenders.** Interest rates can vary significantly among lenders, so periodically review all your debt to see if less expensive options are available.
- **Don't purchase items on credit that don't appreciate in value.** Use cash for items like clothing, vacations, entertainment, and dining out. Most people find it harder to spend cash than to charge a purchase on a credit card. Hopefully, that will cut down on your spending, but if not, at least you won't be paying interest on top of it.
- **Consider using savings to pay off consumer debts.** Since you don't get a tax deduction for interest payments on consumer debts, paying off a credit card balance with an 18% interest equates to a 24% pretax return for those in the 24% tax bracket. If you aren't earning at least that amount on your savings, pay down your debt.

Managing your debt wisely can have a significant impact on your financial situation. Please call if you'd like help getting your debt under control.

Credit Cards and Financial Planning

When it comes to financial planning, credit cards are a pretty divisive subject. Some financial experts advise that you stay away from credit cards, since they make it so easy for you to rack up debt and live beyond your means. Other people see credit cards as a useful financial tool, provided you can use them responsibly and wisely.

The Argument against Credit Cards

Owing a lot of money, especially a lot of high-interest revolving debt, is bad news for your long-term financial health. Getting stuck in debt makes it hard to save for the future and build wealth. Plus, owing a lot on your plastic suggests that there's a disconnect between your income and your expenses. But rather than forcing you to stick to a budget and get your spending under control, credit cards allow you to spend more than you earn while delaying the consequences of that overspending.

The Argument for Credit Cards

One big advantage of using credit cards is that they allow you to build credit. Working to develop a good credit score now may help you down the road when you want to buy a house or make another major purchase.

Credit cards can also be a way to manage irregular income. If you can't count on receiving a paycheck every two weeks, but you know that the money will eventually be coming, a credit card can help you meet daily expenses. With this strategy, it's important to pay your balance promptly so you don't get hit with steep interest charges and end up with a mountain of debt.

If You Use Plastic

Despite some drawbacks, credit cards are a popular tool in Americans' financial arsenal. Because online account management features make it easy to track credit card purchases, many people find that using plastic makes it easier for them to budget and track their purchases. With a few clicks, they can easily see how much they've spent in a certain category in the past weeks or months. And if you're new to budgeting, you can comb through old online statements to get a sense of how much you spend in different areas, like groceries, gas, and entertainment.

As mentioned above, credit cards can also be a valuable tool if you're trying to build credit. If you're worried about controlling your spending but still want the credit-building properties of a card, consider a secured card or one with a low credit limit so you're less likely to overspend.

Savvy consumers can also make their credit card work for them by taking advantage of points and rewards programs. The variety of credit card rewards options is immense, ranging from cash back deals to discounts on gas to frequent flyer miles and hotel points. If you are using a card to get rewards, make sure you don't carry a balance or spend more than you normally would just to get perks. Doing either will quickly erase whatever benefits you get from using the card.

If you're not sure what role — if any — credit cards should play in your financial plan, please call. We can help you understand the pros and cons of credit and how it can help or hurt your attempts to reach your long-term financial goals.

Your Retirement

Continued from page 1

quit working, since many people find 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 you'd otherwise use to make the 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.

Interested in learning more about what you can do to retire debt before you retire? Please call if you'd like to discuss this in more detail.

Teach Your Children How to Handle Credit Cards

Credit cards can be a great convenience for both college students and their parents. They reduce the need to carry cash; enable students to purchase books, clothing, and other incidentals; and provide a ready source for emergency funds. There is another advantage — students who handle their credit cards responsibly have a head start on establishing a good credit history that can help them gain access to lower-interest credit after graduation.

However, young adults can't always be counted on to exercise caution when it comes to spending money. And a virtual blank check, in the form of a student's own credit card or authorized use on your card, can often be an irresistible temptation. For a student using a parent's card, the risk may come in the form of a hefty unexpected bill that cuts into monthly cash flow or reserves. But for a student with his/her own card, the risks are even more far reaching: over-limit fees, late fees, and missed payments that can damage the student's credit rating.

So what's a parent to do? While you probably can't stop your college student from getting a credit card, you can help teach him/her to use that card responsibly. Consider the following tips to help your child manage credit responsibly:

- **Help your child select a credit card.** Try to convince your child to use a debit card instead of a credit card, so he/she won't get into debt. If your child insists on using a credit card, go through several offers with him/her, comparing interest rates, annual fees, grace periods, and penalties.
- **Explain the basics of credit card debt.** Make sure your child understands that not paying the balance in full every month can result in a significant amount of interest. Low minimum payments mean it may take years to pay off credit card balances. Try to instill the habit of paying credit card balances in full every month.
- **Urge your child to only use credit cards for necessities, not to fund luxuries.** Credit cards can be used for items like book purchases and car repairs, but they should be avoided for clothing, dining out, and entertainment, unless your child can pay the balance in full every month.
- **Go over your child's credit card statement every month.** Show your child how to compare receipts to credit card statements. Go over all purchases and explain how credit cards can increase impulse purchases.

News and Announcements

From The Flinton Household

“My mission in life is not merely to survive, but to thrive; and to do so with some passion, some compassion, some humor, and some style.” – Maya Angelou

I don’t know about you, but those words hold nuggets of wisdom and truth that strike a chord with me. The subjectivity of each of those words always drew me in and held the beauty of her words. From my earliest memories I have always had a passion for automobiles and all things cars, although not until now would I have ever called it a passion. As for so many things in my life, I prefer to keep it private as it has always been something just for me, rather than others. However, I do have more than half a dozen different and specific brushes for cleaning wheels alone. Not to say anything of the hard water, de-ionization and filtration system for the at home pressure washer system. I remember pouring over car magazines when I was in early elementary school. When I was 15, a regular of mine at Coit’s on Portland in OKC gave me my first DuPont Registry of exotic vehicles, which I still purchase and look at periodically. I realize that automobiles and auto racing are passions that I want to experience more fully, along with so many other interests. And as I reread those words from Maya Angelou, I hope for all of us that we seek to thrive in life, with passion, in our own style, with our own smile.

Make it a great month,

Andrew “Andretti” Flinton, CFP®
President

From the Sterling Household

I recently read a quote from a French philosopher that resonated with me: “Everything’s already started, we just have to continue” – Alain. I have been in a season of beginnings and endings in recent years, or so I have often viewed it. However, much in the same way that individual chapters are only part of the book, so too are life’s seasons always part of the broader story. The older I get, the more I realize that life is always continuing while we often foolishly contemplate how we will get started.

I just celebrated a milestone birthday – the big 4-0. I vividly remember my own parents turning forty and thinking they were terribly old. Looking back over my thirties, there was no way that I could have anticipated all the changes that the last ten years would bring. Life is full of surprises. Now, I am excited to enter a new decade and see what life will bring in the next ten years. I am excited to “continue,” as Alain put it. Alain goes on to say, “Keep on doing what you’re doing, just do it better.” And that is precisely what I plan to do.

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

Compliance Corner

It seems a new data breach is reported daily. The reality of becoming a potential victim of identity theft is unsettling. Fortunately, there are options to aid in the protection against identity theft.

- Fraud Alert—A fraud alert will not lock your credit but provides additional verification prior to establishing new lines of credit.
- Credit Lock—A credit lock blocks access to your credit report for the purpose of processing new lines of credit.
- Credit Freeze—A credit freeze prevents anyone, including yourself, from establishing new lines of credit by blocking access to your credit reports. A PIN will be assigned to you so you may unfreeze or “thaw” access to your credit report.

The locking and freezing of credit is done with each credit bureau, individually.

The key differences between a credit lock and credit freeze are the cost, activation timing and deactivation timing. A credit lock may be placed or lifted immediately after submitting the request and there may be a fee associated with the service. A credit freeze may be placed within one-three business days after the request. The credit freeze may be removed within an hour of the request. A credit freeze is provided for free.

Contact our office if you have questions or would like additional information. We are happy to provide you with our Protect Your Identity brochure.

Jade Franke
FPQP®, IACCP®
Chief Compliance Officer

Retirement Investment Advisors, Inc.
Holiday Hours

Memorial Day
Monday, May 26, 2025 – Closed