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Financial Briefs

JULY 2026

Debt's Role in Your Financial Plan

As nice as it may seem, achieving debt-free status isn't always the best way to reach your financial goals. Take a look, for example, at mortgage debt. Most people — especially first-time homeowners — can't afford to pay cash for a home, so they borrow some portion of the purchase price. Most mortgage debt is tax-deductible, so it's among the cheapest debt you can assume. However, too much mortgage debt can cause significant financial problems.

What Is Smart Debt?

Smart debt is the kind that generates more advantages than disadvantages. Here's how to recognize it:

- **You already have the free cash flow or liquid assets to cover the required monthly payments.** This means you aren't counting on additional income from the asset you acquire to make the payments. While some people might find this advice too conservative, it's important to remember that the income an asset is supposed to generate can be speculative. If it's rental income, you might not find tenants. If it's short-term proceeds from flipping a property, the market may not support the higher price you're hoping for. And if it's a new business, the customers

might not be there in the numbers you need.

- **The payments don't prevent you from addressing important financial objectives.** Debt that reduces the amount you can save

for a child's education or your retirement may not be smart debt.

- **It's to cover the big-ticket items you need to earn a living.** For most people, this means a reliable

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Interest Rates and Debt

In simple terms, an interest rate is the cost of borrowing money. Understanding interest rates and how they work is essential to making smart financial decisions.

Interest Rate Basics

An interest rate is the amount a borrower (or debtor) is charged by a lender (or creditor) to borrow money. It is usually expressed as a percentage of principal. By charging interest, a lender is compensated for lending you money. By paying a certain amount of interest every time you make a payment, you also help to lessen the financial blow to the lender if you default on (or fail to pay back) the loan.

How Interest Rates Are Determined

A variety of factors influence interest rates. Some are macroeconomic, or related to broad economic trends. In the U.S., the Federal Reserve (the country's central bank) sets what is called the Fed funds rate, which is the amount banks charge each other for certain types

of loans. The Fed funds rate, in turn, influences other interest rates, including the prime rate — the interest rate a bank charges its best (or least-risky) customers. The prime rate then influences other consumer interest rates, such as those for cars, credit cards, and mortgages. The Fed uses its ability to set interest rates to influence the broader economy, lowering interest rates to stimulate growth or raising them to combat inflation.

Of course, broad economic trends aren't the only factors that affect what interest rate you're charged. A lender will also look at your overall creditworthiness and then offer an interest rate based on how risky the lender believes it is to loan you money. If you have defaulted on debts in the past and have little income, a lender may only offer you a loan at a very high rate or even decline to loan you money at all, because it fears there's a good chance you won't pay the

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Debt's Role

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car. For the self-employed, it can also mean capital equipment, like computers and furniture, or an addition to your house for your business.

- **It's tax deductible.** This generally applies only to mortgage interest, but there are limitations. In general, interest paid on mortgages that originated on or after December 16, 2017 with balances of up to \$750,000 and mortgages that originated before December 16, 2017 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.
- **It preserves or improves the value of your home.** Financing major repairs, remodeling, or making your home more efficient with debt can be a smart move, as long as it doesn't violate the principles suggested above.
- **It doesn't push your debt-to-income ratios too high.** Financial experts and banks recommend keeping your total monthly debt payments (including rent or mortgage) at or below 40% of your monthly take-home income, and payments that don't keep a roof over your head to a maximum of 20%. Go beyond these limits, and you may find it hard to be approved for a loan when you need it.
- **It doesn't reduce your credit rating.** This comes into play chiefly as a result of credit card borrowing. Your credit rating suffers when your credit card balances come close to your limit. Consumer credit experts say you should aim to keep your balances at less than 35% of your credit limit to keep your FICO scores from being reduced.

Set Your Own Debt Limits

Credit can be a valuable tool that allows you to purchase major items and pay for them over time. But the ready availability of credit also makes it easy to incur more debt than you can comfortably repay. Rather than allowing lenders to set credit limits for you, evaluate your financial situation and determine your own limits.

To find out where you stand with consumer debt, which includes all debt except your mortgage, make a list of your debts and monthly payments. Then calculate your debt ratio by dividing your monthly debt payments by your monthly net income. The general guideline is that your debt ratio should not exceed 10% to 15% of your net income, with 20% usually considered the absolute maximum. However, you should consider your own circumstances

and decide how much debt you are comfortable with.

Before purchasing something on credit, carefully evaluate whether it makes financial sense to do so. Some questions to ask yourself include:

- Should I wait and save the money so I can pay cash for the item?
- Will the cost of the item increase or decrease in the future?
- Is it really worth paying interest on the item so I can use it now?
- Will I still be within my designated debt limits if I add this new debt payment?
- Will the item still have value after I finish paying for it?

Setting your own debt limit and carefully evaluating whether you should purchase an item on credit should help you keep your debt under control. ■■■

Strategies to Reduce Debt

If your debt is out of hand, here are some steps you can take to make it more manageable:

- **Refinance your mortgage.** If you haven't missed any payments and you have equity in your home (it's worth at least what you owe), you may be able to reduce your mortgage payments by refinancing. Even if you have to finance closing costs, mortgage rates might be so much lower than your current rate that you still come out ahead. You might even be able to cash out some untapped equity in your home and pay off some unsecured debt — replacing high-interest, non-deductible debt with low-interest, tax-deductible debt.
- **Reduce your spending on non-essential items.** Cut out as much of your monthly budget as possible, like meals out, entertainment, subscriptions, premium TV packages, and expensive mobile phone data plans. Trade a luxury car you're still making payments on for a less-expensive one.

- **Keep a record of every penny you spend.** Incidentals you pay for with cash can add up without you being aware of just how much you're spending. Keeping a diary could help you find more ways to reduce unnecessary spending.
- **Cut up your credit cards.** This makes it harder to take on any more credit card debt.
- **Pay down high-interest debt first.** Keep making the minimum payments on all of your debts, but find a way to make the biggest payment possible on your highest-interest card or loan first.
- **Negotiate with your lenders.** Call them to request a reduction in your interest rate, a waiver of late fees, or an affordable payment plan.

If your plan hasn't been updated lately to reflect current debt balances or you're not sure whether you're making the best use of borrowed funds to reach your goals, it's time for a thorough review. Please call if you'd like to discuss debt in more detail. ■■■

Interest Rates

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money back. On the other hand, if you've always paid your debts promptly and have a good income, you may get a lower rate.

Finally, the interest rate you're charged depends on the type of loan you want. One reason mortgage loans tend to have lower interest rates is because they are secured loans, meaning you promise an asset as collateral when you get the loan. If you fail to make payments, the lender has the right to claim that asset (in the case of a mortgage, the house). On the other hand, credit cards tend to have high interest rates because they are unsecured loans, meaning you offer nothing as collateral in exchange. If you fail to pay your debt, the lender has fewer options for recovering what you owe.

The Cost of Borrowing Money

Whether you're borrowing a lot or a little and whether you're rich or poor, the same basic principle applies: the higher the interest rate, the more it will cost you over the long term to borrow money.

For most people, the challenge with debt and interest rates is balancing their short-term financial situation with their long-term goals. In general, it is advantageous to pay off a loan as quickly as possible no matter what the interest rate, since you'll pay less interest overall. (Occasionally, there may be some exceptions to this rule, such as if you can claim the mortgage-interest deduction.) But if your budget is tight, the lower monthly payment that comes with taking a longer time to pay off the loan may be worth it, despite the higher overall interest costs.

If you are not cautious, however, high interest rates and low payments can send you into a debt spiral that it is difficult to escape. Making low payments on a high-interest debt can leave you paying as much in interest as you originally owed and sometimes more. ■■■

10 Steps to Control Debt

Are you buried under a mountain of debt? If you are, you're not alone. Here are some steps you can take to get out from under that debt:

Step 1: Stop adding to your debt. Instead of using credit cards or writing more checks from a home-equity line of credit, pay for everything with cash. If you can't afford to pay cash, don't buy it. If there's too much month at the end of your pay, start cutting out all unnecessary spending on such things as eating out, entertainment, gadgets, snacks, and anything else you don't absolutely need to get through your day.

Step 2: Take inventory. People who get into credit trouble often don't know how much debt they have. Make a list of every loan and credit card in your household, and write down the balance, minimum monthly payment, and interest rate.

Step 3: Ask for lower rates. It's not unusual for people who are overburdened by debt but have otherwise sound credit histories to secure a lower interest rate from a lender just by asking. If you just received a credit card offer in the mail with a lower rate than you're paying, call your card issuer and ask them what they can do to keep your business.

Step 4: Get out of any high-cost vehicles. If your car payment is too high, consider trading in your vehicle for a less expensive one.

Step 5: Make more than the minimum payments. In most cases, making only the minimum payments on your revolving debt will keep you mired under a heavy burden for a long, long time. Increasing the amount you pay each month toward those debts will get you out from under them more quickly. The more you can put toward paying down the debt, the

better.

Step 6: Target the highest interest-rate debts first. If you can, transfer balances from high-interest accounts to lower-interest accounts. Then pay off the card with the highest rate as quickly as you can. As each card or account is paid off, focus on the one with the next-highest rate.

Step 7: Pay on time. Most credit cards charge hefty extra fees for paying late. Worse, late payments trigger higher interest rates, which can make your efforts to pay off your debt even more difficult. If you can, automate your monthly credit card payments so that they come out of your checking account each month on the due date.

Step 8: Refinance your mortgage. If you have the opportunity to refinance your current mortgage into one with a lower rate, it may be worthwhile — as long as you use that extra cash each month to pay off your other debts.

If you have enough equity in your home, consider a debt consolidation loan. Mortgage interest rates are typically much lower than credit card rates, and mortgage interest is tax-deductible. So if you can roll your credit card debts into your mortgage, you'll have an easier time getting out from under that burden. Take care, though, to avoid over-leveraging your home's equity.

Step 9: Negotiate with your creditors. Your creditors would rather see you pay as much as you can, even if it's less than 100 cents on the dollar, to satisfy your obligations, rather than see you walk away entirely.

Step 10: Seek help. Perhaps this should be the first step. Getting out of debt — especially if you feel buried by it — can be an overwhelming experience. Please call if you'd like to discuss this in more detail. ■■■

News and Announcements

From The Thurman Household

Two conferences recently pulled me in two very different directions, and I came home better for both.

The first was the World Parkinson's Congress — a remarkable gathering of researchers, clinicians, and families all rowing in the same direction. I left it hopeful, and with a stack of notes on where science is headed.

The second took me to the AICPA Engage Advanced Personal Financial Planning Conference, where I had the honor of speaking about my book, *The All-Weather Retirement Portfolio*. I'm happy to report it went well — a good crowd, sharp questions, and a few new friendships to show for it. There's nothing quite like talking shop with people who care about doing right by their clients.

I took detailed notes at both events, and I'd be glad to pass them along. If you'd like my summary from either conference — the Parkinson's research side or the financial planning side — email Info@TheRetirementPath.com, let me know which one you'd like and I'll send it your way.

It's a privilege to walk this road with you, and I'm grateful for the trust you place in us.

Randy L. Thurman, CFP®
CPA/PFS™, CEO

From the Peralta Household

I recently shared that I was two weeks out from the OKC Memorial Half Marathon with a goal of breaking 1:30. I'm happy to report I ended up running a 1:27, which felt like a big milestone and a good reminder of what consistent training can produce over time. That race also marked a bit of a turning point for me, and I found myself wanting something that would push me into a completely new level.

This fall is shaping up to be that challenge. I've committed to doing my first half Ironman in October, and alongside that I'm also signed up for the Indianapolis Marathon in November. After hitting a 1:27 in the half, my goal for Indy is to break 3:10, which will be a big stretch but something I'm excited to work toward. One of the biggest changes I've made recently is hiring a coach for the first time. Up until now, I've mostly handled my own training, so having someone guide the process has been a different experience and has already brought a lot more structure and intentionality to how I'm preparing. Especially since swimming and biking are now in the picture.

More than anything, this season has been a good re-

minder that progress usually comes from committing to something just outside your comfort zone and then putting in the work day-after-day. We'll see how it all comes together this fall.

Alexx V. Peralta, CFP®
Financial Advisor

Compliance Corner

As part of our ongoing commitment to supporting your financial journey, we want to highlight a strategy you may have heard about: Roth conversions.

A Roth conversion allows you to move funds from a traditional, tax-deferred retirement account into a Roth account. While the amount converted is generally taxable in the year of the conversion, qualified withdrawals in the future can be tax-free.

This strategy is often used as a way to create more flexibility and predictability in retirement income. By choosing to pay taxes now, some clients position themselves for tax-free growth and distributions later—particularly if they expect to be in a higher tax bracket down the road.

We also recognize that timing and strategy matter. Conversions can increase taxable income in the year they occur and may impact other areas of your financial picture. That's why these decisions are coordinated carefully with your advisor.

Our team is here to help ensure your experience is smooth—whether it's gathering account information, coordinating paperwork, or helping facilitate communication with your advisor. We're always here to help.

Client Services Team