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JOE'S FINANCIAL LETTER

WINTER 2021

Sufficient Funds for Your Entire Retirement

Depending on your age and circumstances, retirement can feel far away and mysterious or achingly close and excitement (or panic) inducing. When you're young, the idea of retirement is shrouded in idle thoughts of what you'll do when you don't have to work anymore. But while those fast approaching retirement may have a clearer view of what is to come, in some ways, they are just as unaware of what is really in store for them over the next few decades. Most of us don't know how long we're going to live, so making sure we have sufficient funds for our entire retirement is incredibly important.

How Much to Save?

While it's thought you may only need as low as 70% of your current income per year in retirement, it is wise to assume that you will need closer to 100%. Think of all the things you enjoy doing now: traveling, hobbies, attending cultural events and sports games. All of these could be a vital part of an active and interesting retirement, but they also cost money. Make sure you have saved enough to be active and that your withdrawal rate is not so high that your resources could deplete early. While it's always customizable, a good starting point is to withdraw 4% in the first year of your retirement, and continue to adjust for inflation down the road.

Cutting back on living expenses now will free resources for more contributions to your retirement and will give you an idea of how little you can live comfortably on. This will give you a better idea of how much you will really need in retirement. The most important expense to get rid of is payments on any debt. Your cost of living will be significantly reduced if you have paid off your mortgage and any outstanding consumer debt.

When forming a plan or determining if you are ready to retire now, err on the side of longevity when it comes to your lifespan. Add a few years to what is generally expected — plan on living until 85 or 90. It is a far better situation to have saved more than necessary than to run out of funds late in life. In the vein of further caution, it is a good idea to have an emergency fund

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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. Unfortunately, since this work doesn't come with a paycheck, it leaves those moms and dads in a tough spot when it comes to retirement.

A nonworking spouse 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 nonworking 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

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Sufficient Funds

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outside of your retirement plan. A general rule is to have at least six months of living expenses tucked away just in case.

What about Housing?

In general, housing should take up about 25% of your gross pay or 35% of your take-home pay. If you own your own home and have paid off your mortgage, this shouldn't be a difficult guideline — but remember that with a house comes additional, and often expensive, repair and maintenance costs. If you plan on staying in your home throughout your retirement, make sure the big stuff is in good working order or replaced while you are still drawing income. This includes the roof, the foundation, siding, HVAC, sewer lines, and septic system, as well as an emergency fund in case of fire or water damage.

Your house will also need to be adapted for your needs as you age. You may need to consider selling a home that requires a lot of upkeep and downsizing to something more manageable. No one wants to face the reality of physical deterioration, but most people face mobility issues as they age and a one-story home is safer and easier to navigate.

Continuing Income Options

It may be tempting, but resist the urge to take early retirement. It is difficult enough to save enough money to live on in retirement if you are only retired for 20-25 years. Imagine if you retire at 55 years old and live for another 35 years. You will need funds to support yourself in retirement for longer than you were in the workforce. Every extra year you work is a year you don't have to support yourself using your retirement savings.

Once you've retired, it can be helpful for your savings and your wellbeing to work a casual, light job. Many retirees find themselves missing the comradery of the workplace and the continued income will allow for more spending money, vacations, and greater security in your savings. You could put your experience to work for you as a part-time consultant in your former field, or put in a few hours a week at the town museum.

Last but not least, consider longevity insurance. This is a type of deferred annuity that will continue to provide income well into your twilight years. People usually purchase it at around 65 years old, and the payout begins at 80 years.

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

Manage Your Nest Egg after Retirement

You may think that after retirement you can sit back and stop worrying about money…after all, you scrimped and saved for decades. You're comfortable with what you've put away and now it's time to relax. Well…not quite. If not for inflation and market volatility, you might be right, but you still need to keep a careful eye on your portfolio.

The current U.S. rate of inflation is a little over 2%, but it fluctuates constantly. A 3% rate of inflation per year means that after 23 years, a fixed sum of money has lost half of its value. What you may have only noticed from time to time at the grocery store and gas station before retirement, you will see as a dire threat to your savings. And unfortunately, safe assets do not keep you ahead of inflation in the long run.

Managing your portfolio in retirement can be difficult and complicated, but by doing so, you can keep it growing and combat the threat of inflation. Here are some key points to consider:

- Keep some of your portfolio invested in stocks.
- Maintain a rate of withdrawal below your annual rate of return. This is no more than 3% or 4% per year, so that the remaining balance can be reinvested to continue growing.
- Keep your essential expenses separate from nonessential expenses in your budget. Consider structuring your portfolio to have assets like dividend-paying stocks or long-term bonds pay for your essential expenses, but are otherwise untouched.
- Rebalance periodically. This means selling off a portion of the assets in an asset class or subclass that has grown larger than your intended allocation. Use the proceeds from the sell-off to purchase assets in classes or subclasses that have shrunk in value. While it is wise to rebalance once per year, it is also good to consider rebalancing when any category of assets has grown or shrunk by 5% to 10% off your designated allocation percentage.
- Withdraw as little as possible from your investments and review them regularly. If your investments have gone down in value, you will deplete your balance quickly by continuing the same withdrawal rate as before.
- Build up a reserve of investments not tied to the stock market, preferably totaling three or four years of retirement expenses. If you have this reserve to fall back on, you will not need to sell stock investments during periods of market decline.
- Withdraw funds in a tax-efficient way to make them last longer. For example, you should withdraw your taxable investments first so that tax-deferred investments can continue to grow. By age 72, you will likely have to start taking minimum required distributions from tax-deferred investments, but going back to work part-time may help push that timeline back even further.
- Reassess your asset allocation periodically. Make changes gradually to increase diversification in your portfolio.

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

Stay-at-Home Parents

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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 $6,000 a year to an IRA on behalf of their spouse ($7,000 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 spouse who doesn't work 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.

Tax-Deferred Compounding

When considering your retirement, it's good to remember there are two keys to creating more wealth from the same starting point and the same amount of resources. One, compounding, is a gift of the laws of mathematics. The other is a gift from the government: tax-deferred compounding.

You compound your investment returns when you reinvest them instead of spending them. If you earn 5% a year on $10,000, that's $500. Over 10 years, you've made $5,000. If you spend it all, you will be no better positioned for retirement. Your account balance would still be the same.

But reinvesting those earnings makes a big difference. Let's say that in the example above, you're generating income in a taxable account and your tax rate is 24%. This means that out of your earnings of $500 a year, you net $380 after taxes, and let's say you reinvest it all. After 10 years, your account value will have grown to nearly $14,520, which is a total return of 45.2%.

Tax deferral makes this even better. Individual retirement accounts and 401(k) plans were designed to encourage Americans to save their own money for retirement. The incentives were two-fold. The first was granting people an income tax deduction for their contributions. But the second was the most powerful by putting off taxes on investment earnings and capital gains until the money is withdrawn.

Returning to our example, let's say your money is in a tax-deferred retirement account, like a 401(k) or an IRA, still earning 5% a year. The tax-deferral feature of these accounts means you can reinvest the entire $500 your portfolio earns every year. Now, after 10 years, your account is worth $16,470, 13% more than the $14,520 that built up in the taxable account at the same pre-tax rate of return. The difference can be even more dramatic when you're making monthly contributions and achieving higher rates of return in your account.

Here are some ways to get the maximum benefit out of tax-deferred accounts:

- **Start early.** Even small amounts contributed regularly can grow to substantial amounts when you start at an early age. If you're 25 and you contribute just $25 a month to an IRA or 401(k) that earns an average of 8% a year, by the time you're 65, your balance could equal more than $351,000. That's over $55,000 more than you'd build up if you contribute $500 a month — 20 times as much — but waited to start until you were 45.
- **Put away as much as you can.** Maximum contributions to IRAs are $6,000 if you're under 50 years of age, and $7,000 if you're 50 or older. For 401(k) plans, the maximum is $19,500 in 2020 and you can add another $6,500 if you're 50 or older (if permitted by your plan). Since tax-deferral provides the bulk of the benefits of retirement accounts, it's smart to push toward the maximums.
- **Maximize any employer matching contributions.** Not all 401(k) plans feature a matching employer contribution, but if yours does, do everything you can to qualify for the maximum match. It's like free money.

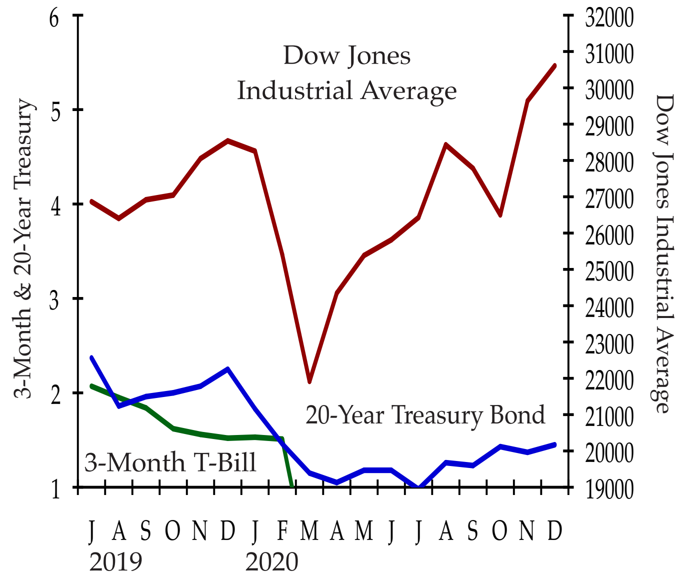
Business Data

Indicator	Oct-20	Nov-20	Dec-20	Dec-19	Dec-18
	Month-end				
Prime rate	3.25	3.25	3.25	4.75	5.50
3-month T-bill yield	0.10	0.09	0.10	1.52	2.47
10-year T-note yield	0.88	0.84	0.93	1.92	2.89
20-year T-bond yield	1.43	1.37	1.45	2.25	3.03
Dow Jones Corp.	2.23	2.01	1.93	2.84	4.40
GDP (adj. annual rate)#	-5.00	-31.40	+33.40	+2.10	+2.20

	Month-end			% Change	
Indicator	Oct-20	Nov-20	Dec-20	2020	2019
Dow Jones Industrials	26501.60	29638.64	30606.48	7.2%	22.3%
Standard & Poor's 500	3269.96	3621.63	3756.07	16.3%	28.9%
Nasdaq Composite	10911.59	12198.74	12888.28	43.6%	35.2%
Gold	1881.85	1762.55	1887.60	23.9%	18.8%
Unemployment rate@	7.90	6.90	6.70	91.4%	-5.4%
Consumer price index@	260.28	260.39	260.23	1.2%	2.1%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's*, *Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
July 2019 to December 2020



News and Announcements

Retirement Withdrawal Strategies

Like your parents, you worked hard and saved hard, and now it is finally time to reap the rewards. Unlike your parents, you probably don't have a pension, Social Security benefits are uncertain, and healthcare costs are higher than ever. Today's retirees live longer and need to use more personal savings than previous generations. It's important to develop a withdrawal plan that will give you the best chance for not outliving your assets.

Where to Start

You want a plan that ensures you can meet your expenses and has the potential to keep growing, all while weathering inflation, market volatility, and taxes. Determine how you want to live in your retirement years. Define what expenses are non-negotiable like housing, and then expenses that are discretionary, such as traveling. One withdrawal strategy may be to use your reliable income, such as Social Security, for essential expenses and your investment income for things you want to do.

Keep it Growing

Building a strategy for growth is very different while in retirement. You will need an asset allocation strategy that uses a target asset mix of investments aligned with your risk tolerance, which will probably be different at this stage of your life than when you were younger.

Monitoring and Rebalancing

Just like during your saving years, you need to monitor your portfolio on a regular basis. It may be wise to rebalance your portfolio due to market conditions or other factors that impact your life. While in the early years of your retirement, you may take more risk; as you age, you may want to be more conservative.

Please call if you'd like help developing a withdrawal strategy for your retirement funds.

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