LET'S TALK MONEY®

January/February 2021

Retirement Income

Planning for retirement involves estimating monthly income needs and determining which retirement funds to tap first. There are several general retirement income strategies to consider, but the key is to customize withdrawals to best fit your situation. Here are a few:

The 4% Rule

Many people use the 4% rule and withdraw 4% of their portfolio each year. Although this approach provides a predictable annual income, it's not without its drawbacks. If the bulk of your retirement savings are subject to market volatility, your monthly income could drop, too.

This is a "set it and forget it" method. It does not take into account other sources of income, such as part-time employment, or changing needs. This may be a good way to get a general idea about how much income your investments will likely generate, but when you are close to retirement, it's important to build in some flexibility.

Fixed Amount

Another option is the fixed dollar amount approach. In this case, you'd withdraw a fixed amount each year based upon your budgeting needs. For simplicity you could withdraw the same amount each year and reassess your situation annually. And if changes are needed, make them at that time.

Interest Only

This approach has you withdraw only interest payments you receive from your investments. For this method to be beneficial, most, if not all, of your retirement savings will need to be invested in fixed income securities, like corporate or government bonds. The benefit of only drawing on your interest payments for your retirement needs means that your principal remains intact ready to use when an emergency arises.

RMDs

When developing the strategy that's right for you, you'll want to plan for taking required minimum distributions (RMDs) from your tax-deferred plans (e.g. traditional IRAs, 401k or other employer sponsored plans). The required distribution amount depends on your age and the balance of your accounts.

Work with your tax and financial professionals to create a a custom and personalized retirement distribution strategy that works best for you.

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I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

Getting FIRE'd?

FIRE stands for Financial Independence, Retire Early. It's a financial movement growing in popularity as more and more people seek to eliminate debt and build savings so they can retire earlier than usual. Regardless of your target retirement date, this movement focuses on some smart financial strategies:

Reduce

One of FIRE's focus is on eliminating all debt and reducing expenses. Paying off debt is the first step with a focus on not accumulating new debt. Start by scrutinizing how you spend your money to identify unnecessary expenses.

Increase

FIRE followers also look for ways to increase their income. Things like switching jobs for a significant pay increase, working side gigs or generating passive income from owning rental property add money toward the early retirement goal.

Invest

The last tenement of FIRE involves sound investing strategies. Start by maxing out retirement plan contributions. And if your employer offers a matching contribution, be sure you're saving at least the minimum amount to get the maximum contribution.

Pay Off Your Debt

Paying off your debt is a liberating feeling. If your New Year's resolution is to become debt-free, consider using one of these debt payoff strategies to achieve your goal.

Snowball

The snowball method involves paying off your smallest balance first. Start by paying the minimum on all but the smallest balance on which you pay as much as you can afford until it's paid in full. Then roll that amount into the next debt on your list.

Avalanche

The avalanche method is similar to the snowball method but has a different focus. The goal is to pay the least amount of interest. Whereas the snowball method doesn't consider interest rates when prioritizing debts, the avalanche method works to pay off the debt with the highest rate first. Make your list of debts and include the interest rates for each one. You'll use the same payment strategy as with the snowball method, except you'll pay off debt with the highest interest rate first.

Consolidation

Debt consolidation works to combine multiple debts into one. Generally, debt consolidation aims to reduce your monthly payment and may or may not decrease your interest rate. If you're considering debt consolidation, be sure to calculate the total interest you'll pay under the new loan versus the old rate.

Credit Card Lures

Credit card companies attract new customers with enticing offers. If you've recently received an offer, beware of these pitfalls.

- **0% Interest Rates**
  That 0% interest rate may be for a limited time so if you fail to pay the entire principal balance by the end of the introductory period, you'll be charged interest.

- **Sign-on Bonuses**
  Often a bank will offer a cash sign-on bonus if you make certain purchases. Maybe you'll have to spend $2,000 in the first three months. However, the bank is counting on you not paying the balance in full so they can collect interest. Any sign-on bonus you receive may be less than the interest you pay.

- **Annual Fees**
  Many of the points, miles or cash back cards have an annual fee. While it might be tempting to get that card with 2% cash back on every purchase, you'll need to spend $4,750 each year to earn enough cash back to cover the cost of a $95 annual fee.

A Challenging Tax Year

Another tax year is in the books and what a year is was! Preparing to file income taxes is likely to be more challenging this year with all the changes.

- For starters, many Americans' personal situation have changed due to the pandemic. For example, those who collected unemployment compensation should receive a Form 1099-G from the state. Both federal and state unemployment compensation is taxable as ordinary income. Sadly, COVID took many lives and that may have an impact on a spouse's tax return.

- Business owners that took advantage of government aid need to demonstrate compliance. Also, losses due to temporary or permanent closures may create entirely different tax scenarios.

- Congress passed many tax changes for 2020, most designed to help save taxpayers money. These changes are too numerous to detail here, but the takeaway is that this year, you'll want to consult your tax professional for assistance with filing your taxes so you get the best possible results.

- Meanwhile, some rules remain the same. Remember, you have until April 15, 2021 to make potentially deductible contributions to your IRA for 2020. You can contribute $6,000 if you're under 50 and $7,000 if you're 50 or over for 2020.

Minimum Payment Calculator

Credit card balances are expensive. Consider how much a $1,000 purchase on a credit card charging 20% interest will ultimately cost you and how long it will take to pay it off. *

MONTHLY PAYMENT	NUMBER OF PAYMENTS	TOTAL COST
$25	127 Months	$2,197.08
$50	60 Months	$1,417.95
$100	32 Months	$1,185.47

**https://www.bankrate.com/calculators/credit-cards/credit-card-minimum-payment.aspx*
This is a hypothetical example. It is not representative of any specific investment strategy or combination of investment strategies. Actual results may vary.

Relocating During Retirement

If the time has come for you to downsize, become a snowbird or you're simply ready for a new adventure, consider the following when relocating during retirement.

Review Costs

If relocating means purchasing a home in your new location, review your income and expenses to see how much house you can afford. Securing a mortgage as you get older may be more difficult. Lenders may require shorter terms or require a guarantor.

Also remember to consider maintenance costs on the new home. You may be able to do smaller repairs and maintenance yourself now, but you may need to hire professionals in the future. There are communities that will provide some maintenance services for owners. But that comes with a homeowners association fee that can be hefty. If you don't want to worry about home maintenance, consider renting.

Don't forget to review the cost of living amounts in your new locale.

Lifestyle Considerations

A change of location involves more than just considering monetary costs. Don't forget to think about lifestyle concerns.

If you're moving out of the country, ensure your health insurance will cover you. And more importantly, ensure health care in your new location is high-quality. Are there reputable doctors and hospitals nearby? If the nearest doctor's office is not close and you aren't planning on buying a car, consider how you will get there.

If you're moving far away from friends and family, be sure there is an airport near your new home if you want them to visit you often. Also consider the cost of flights from your new location if you plan to do a lot of travel. Ensure you're moving to a safe location. Research crime rates to know if there are any problems.

If you're looking to escape the cold, be sure you're comfortable with the new climate. If being active is important to you, look for places that have activities you're interested in. Getting involved in your community and doing things you enjoy can make for a smooth transition.

We Value Your Input...

Your feedback is very important to us. If you have any questions about any of the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

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Financial Industry Regulatory Authority

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Reviewed by,

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