LET'S TALK MONEY®

November/December 2021

Inflation: Retirement's Nemesis

Thinking about retirement can bring with it some mixed emotions. You may be looking forward to leisure time but still have some concerns about whether you'll have enough money to live the life you want without a steady paycheck. Creating a realistic spending plan is essential, as is planning for economic changes.

Inflation is Inevitable

Inflation — an increase in the prices of goods and services — makes it more expensive to buy food, drive a car, and heat and cool your home. Over time, even low inflation can erode your retirement savings. So, as you create your retirement spending plan, account for rising prices in your budget.

Location Makes a Difference

Housing, food, and even gas prices may vary depending on where you live in retirement. Rising prices can affect rents, association fees, and property taxes. While you can't control inflation, you can be realistic about living costs before you decide whether to move or stay put.

Don't Forget Health Care Costs

Health care could be one of your biggest expenses in retirement. Even if you're relatively healthy now, your medical expenses are likely to increase as you age. If you're eligible, consider saving money in a Health Savings Account (HSA) or Health Reimbursement Account (HRA) to pay future health care costs.

Inflation: What Can You Do?

Adding investments to your portfolio that are less affected by inflation is a good place to start. Here are just two of several types of investments to consider.

- Stocks have historically earned returns that outpace inflation. But stocks from some economic sectors, such as energy and consumer staples (household goods, food, hygiene products, etc.), perform better than others during periods of rising prices.
- Treasury Inflation-Protected Securities (TIPS) are indexed to inflation. As inflation rises, the principal increases (or decreases with deflation). Interest payments based on the principal are made twice a year. Investors receive either the adjusted principal or the original principal at maturity.

Consult your financial professional to discuss investment selections for your portfolio that offer inflation protection.

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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.

Retirement Version

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Surprise — It's Taxable!

It's almost that time of year when you and the IRS must settle what you owe — or what the government owes you. Before you prepare your tax return, consider whether you'll need to include any of the taxable items listed below.

- Social Security benefits
- Unemployment benefits

- Portion of a scholarship that covers expenses other than tuition, fees, and books (e.g., room and board, travel, etc.)
- Canceled debt from credit cards, car loans and mortgages (Student loan debt is exempt.)
- Honors with cash prizes
- Certain alimony payments
- Gambling winnings (lotteries, horse racing, casinos, sports betting, etc.) Some losses are deductible.
- Gifts from an employer that reward an employee for services or help promote the company
- Found property
- Bartered property or services in lieu of cash

Consult your tax advisor to determine which items you should include when preparing your income tax return.

Preserving an Inheritance

A sudden inheritance can catch you off guard. One minute your life is status quo; the next minute, you have additional assets to plan for. While it may be tempting to spend your windfall, take a step back. Reckless spending has decimated many an inheritance, so sit down with your financial professional to develop a plan for managing and preserving your wealth. Here are a few ideas to get started.

Stash the cash in a money market account or other short-term investment until you have a plan in place.

Create a saving and investment plan. If you don't have an emergency fund with 6-to-12 months of living expenses, start there. Invest extra money in investment vehicles that reflect your time frame and risk tolerance.

Pay off personal loans and high-interest-rate credit card debt, and don't run up new debt.

Plan a legacy that leaves wealth to your loved ones or to charity. Federal estate tax applies to estates worth more than $11.7 million ($23.4 million for married couples).* An estate planning attorney can help you navigate the options to minimize any tax bite.

Splurge a little. Setting aside some money to spend on yourself can keep you from feeling deprived.

**https://www.irs.gov/businesses/small-businesses-self-employed/estate tax#:~:text=and%20%2411%2C700%2C000%20in%202021*

Spend Less for a Jollier Holiday

It doesn't take much to overspend when the holidays roll around. But, after the presents are opened and the wrapping paper disposed of, your own "gifts" could be a pile of bills and buyer's remorse. With a little planning and a dose of self-discipline, you can enjoy the holidays debt free.

Set Limits —and Stick to Them!

Don't spend a single cent until you have a budget in place. Whether you set aside a an amount of money to spend on all gifts or assign a per-person spending limit, decide on your budget before you hit the mall or the computer.

Cash is King

It's easy to forget about your budget when you're carrying credit cards, especially if your favorite stores are having holiday sales. Leave your cards at home, and make it cash or debit card only when you're shopping at retail stores. And, before you shop, come up with gift ideas for every person on your list so you'll be less tempted to buy items on impulse.

Curb Your Enthusiasm

Shopping for specific items online allows you to easily compare prices at different websites and reduces the temptation to buy extras that aren't on your list. If you pay online with a credit card, subtract the amount from your budget, and remember to pay off the balance when you get the bill.

Give Up Small Things

Want to generate more cash? Several months ahead of the holiday, try eliminating small expenses, such as picking up coffee on your way to work or buying lunch. Then add that money to your holiday savings account.

Be a Grocery Grinch

Holiday grocery shopping can destroy your food budget in the blink of an eye. Save at the supermarket with these timely tips.

- Plan your menus so you're buying only the items you'll need for holiday meals and gatherings.
- Take inventory of the ingredients you already have on your pantry shelf.
- Check store flyers to see if any items you need are on sale. Use coupons.
- Create a shopping list and strictly follow it. No matter how tempting, buying extra items that are on display can put you over budget in no time.
- Shop at multiple stores to get the lowest prices.
- Score free food. Stores often have promotions around the holidays offering a free item when you spend a certain amount within a specified time frame.
- Think outside the supermarket. Drugstore chains sometimes have great deals on staples, such as baking supplies, mixes, and beverages.

Holiday Tipping Guide: A Refresher

Tipping during the holidays is a nice way to show your appreciation to service providers for all they do for you during the year. Here are some general guidelines.

Think About Charitable Giving at Year's End

Supporting a cause or charitable organization that's important to you may be high on your year-end to-do list. Before the ball drops and you bring out the hats and noisemakers, take time to identify charities that you want to receive your donations.

Choosing a Charity

Whether you want to support multiple organizations or causes or only one, your first step should be to visit the charity's website. Form 990, which tax-exempt organizations are required to file annually with the IRS, offers an overview of the organization's activities and governance and provides detailed financial information. It gives you a helpful snapshot of the charity's mission and finances.

An Unbiased View

Sites such as Charity Navigator and GuideStar can help you evaluate a charity by showing you how much of your contribution is used to fund actual programs and how much goes toward administrative costs. Low administrative costs mean more money is available for the charity's mission. This information can be helpful when you're deciding between charities that support similar causes.

Deduct Without Itemizing

The CARES Act allows taxpayers who take the standard deduction to claim a $300 charitable donation deduction on their 2021 returns. For 2021, joint filers can deduct $600. You'll need to prove your donations, so make them with a credit card or save your receipts if you donate cash or by check.

IRA Contributions

If you're age 70½ or older, you can donate to a charity by taking a qualified charitable distribution (QCD) of up to $100,000 from your traditional individual retirement account. You won't pay tax on the distribution as long as it goes directly from your IRA to the charity. IRA owners who are age 72 or older can use the QCD to fulfill their RMD requirement. Typically, a QCD is not included in adjusted gross income. However, other rules may apply.

Donations charged to a credit card before midnight on December 31 will qualify for the tax deduction, even though you won't pay the bill until next year. Consult your tax and financial professionals for guidance with year-end charitable giving.

We Value Your Input...

Your feedback is very important to us. If you have any questions about 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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The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

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