



SOCIETY FOR FINANCIAL EDUCATION AND PROFESSIONAL DEVELOPMENT

Enhancing financial and professional growth...

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financial



U C C E S S

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Pump Up Your Retirement Savings

Don't give up on your retirement goals if you find you've entered middle age with little to no retirement savings. Sure, it may be harder to reach your retirement goals than if you had started in your 20s or 30s, but here are some strategies to consider:

✓ **Reanalyze your retirement goals.** First, thoroughly analyze your situation. Calculate how much you need for retirement, what income sources will be available, how much you have saved, and how much you need to save annually to reach your goals. If you can't save that amount, it may be time to change your goals. Consider postponing retirement for a few years so you have more time to accumulate savings as well as delay withdrawals from those savings. Think about working after retirement on at least a part-time basis. Even a mod-

est amount of income after retirement can substantially reduce the amount you need to save. Look at lowering your expectations, possibly traveling less or moving to a less expensive city or smaller home.

✓ **Contribute the maximum to your 401(k) plan.** Your contributions, up to a maximum of \$19,500 in 2020 and 2021, are deducted from your current year gross income. If you are age 50 or older, your plan may allow an additional \$6,500 catch-up contribution,

bringing your maximum contribution to \$26,000. Find out if your employer offers a Roth 401(k) option. Even though you won't get a current year tax deduction for your contributions, qualified withdrawals can be taken free of income taxes. If your employer matches contributions, you are essentially losing money when you don't contribute enough to receive the maximum matching contribution. Matching contributions can help significantly with your retirement

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The Need for an IRA

You may want to contribute to an individual retirement account (IRA) for some or all of the following reasons:

- ✓ **You'll probably need the additional funds for retirement.** Even with Social Security and pension or 401(k) benefits, you'll probably need other savings to fund your retirement.
- ✓ **You'll lower your taxes.** You can lower your taxes currently by contributing to a traditional deductible IRA or in the future by contributing to a Roth IRA.
- ✓ **You're more likely to use the funds for retirement.** If you save in a taxable account, it's easy to use the funds for other purposes. However, the government discourages the use of IRA funds for other purposes by assessing a 10% federal income tax penalty when funds are withdrawn before age 59½ (except in certain limited circumstances).
- ✓ **You have a wide variety of investing options.** With a 401(k) plan, you typically have a limited number of investment options. However, with an IRA, you can invest in a wide variety of investments. ○○○



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Pump Up

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savings. For example, assume your employer matches 50 cents on every dollar you contribute, up to a maximum of 6% of your pay. If you earn \$75,000 and contribute 6% of your pay, you would contribute \$4,500 and your employer would put in an additional \$2,250.

✔ **Look into individual retirement accounts (IRAs).** In 2020 and 2021, you can contribute a maximum of \$6,000 to an IRA, plus an additional \$1,000 catch-up contribution if you are age 50 or older. Even if you participate in a company-sponsored retirement plan, you can make contributions to an IRA, provided your adjusted gross income does not exceed certain limits.

✔ **Reduce your preretirement expenses.** Typically, you'll want a retirement lifestyle similar to your lifestyle before retirement. Become a big saver now and you enjoy two advantages. First, you save significant sums for your retirement. Second, you're living on much less than you're earning, so you'll need less for retirement. For instance, if you live on 100% of your income, you'll have nothing left to save toward retirement. At retirement, you'll probably need close to 100% of your income to continue your current lifestyle. With savings of 10% of your income, you're living on 90% of your income. At retirement, you'll probably be able to maintain your standard of living with 90% of your current income.

✔ **Move to a smaller home.** As part of your efforts to reduce your preretirement lifestyle, consider selling your home and moving to a smaller one, especially if you have significant equity in your home. If you've lived in your home for at least two of the previous five years, you can exclude \$250,000 of gain if you are a single taxpayer and \$500,000 of gain if you are married filing jointly. At a minimum, this strategy will reduce your living

How to Avoid Credit Card Dependence

Ask yourself these questions to evaluate your dependence on credit cards:

- ✔ Do you rely on credit cards to make it until your next paycheck?
- ✔ Does it seem you always have to put unexpected expenses on your credit card?
- ✔ Do you think you spend more than you would with cash because your card has rewards or discounts?
- ✔ Do the holidays leave you with a mountain of credit card debt?

If you answered yes to these questions, you are probably relying too much on your credit cards. If you are concerned you are too dependent on credit cards, there are steps you can take to become credit card independent.

- ✔ Put your credit cards somewhere for safekeeping to reduce the temptation to use them as your regular form of payment.
- ✔ Become more disciplined with spending by enacting a cash-only policy. While many people use debit cards as a convenient way to pay cash, be careful. Many financial institutions will allow

expenses so you can save more. If you have significant equity in your home, you may be able to use some of the proceeds for savings.

✔ **Substantially increase your savings as you approach retirement.** Typically, your last years of employment are your peak earning years. Instead of increasing your lifestyle as your pay increases, save all pay raises. Anytime you pay off a major bill, such as an auto loan or your child's college tuition, take the money that was going toward that bill and put it in your retirement savings.

you to overdraft your account when you use a debit card and may charge a large fee for this overdraft privilege.

✔ Consolidate your balances to the cards that have the lowest interest rates and close the rest of your credit card accounts to reduce the amount of available credit and, thus, the potential amount of debt you could incur. While closing credit cards can have a negative impact on your credit score, it's still better to have a temporary credit score setback than to go deeper into debt if you can't control your spending. To reduce the impact to your score, you should also consider keeping your oldest credit card in addition to a lower interest-rate card.

✔ Shock yourself into reality by looking at a few important things on your credit card statement, including: how much you are paying in interest on an annual basis, how long it will take you to pay off the balance, and how much you will pay in interest if you are only making the minimum monthly payment. This information can be a real eye-opener.

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

✔ **Restructure your debt.** Check whether refinancing will reduce your monthly mortgage payment. Find less costly options for consumer debts, including credit cards with high interest rates. Systematically pay down your debts. And most important — don't incur any new debt. If you can't pay cash for something, don't buy it.

✔ **Stay committed to your goals.** At this age, it's imperative to maintain your commitment to saving. Please call if you'd like help reviewing your retirement savings program. ○○○

5 Facts about Estate Planning

When it comes to the future, most Americans have a blind spot: estate planning. Maybe it's because of an unwillingness to think about mortality or a sense that wills and trusts are only for the wealthy that people put off this important financial planning task. Whatever the reason, there are a lot of estate planning slackers out there. That's a problem, because not having an estate plan could put your family's financial future in jeopardy and cause other serious consequences. Here are five facts everyone should know about estate planning.

1. Everyone Needs an Estate Plan

Yes, estate planning is absolutely necessary for the wealthy. But the rich are far from the only ones who need to think about the future. Pretty much everyone needs an estate plan, regardless of how old they are or how much money they have, and can benefit from putting documents in place that clarify who should receive their property after they die, what kind of healthcare they'd like to receive if they were incapacitated, how surviving family members will be provided for, and more. Estate planning is especially important for those who have children, complicated family situations, special needs family members, or own certain types of assets (like art, intellectual property, or a small business).

2. A Will Is Not Enough

Wills are an important part of estate planning, but they are just one piece of a larger puzzle. Wills clarify who should receive your assets after you die. But you may also need other documents, like a living will, which explains what kind of medical treatment you'd like to receive if you can't make decisions on your own, a healthcare proxy (a person who will make

healthcare decisions on your behalf) and a power of attorney (a person who is authorized to make legal decisions on your behalf when you're not able to). In some cases, you may want to set up trusts to provide for your heirs or charities. An estate planning attorney can help you understand which estate planning documents are necessary in your situation.

3. Your Beneficiary Designations Supersede Your Will

Many people assume that the instructions in your will take precedence over any other directions regarding their estate. That's not always the case. Beneficiary designations on retirement accounts, life insurance policies, and bank accounts aren't superseded by your will. So, even if your will leaves your entire estate to your surviving child, a retirement account that names your brother as the primary beneficiary will still go to your sibling. That's why it's important you review your beneficiary designations regularly and update them when your life changes (birth of a child, divorce, etc.).

4. You Can Leave More to Your Heirs if You Structure Your Estate Properly

If you have a sizable estate —



one that exceeds the \$11.7 million federal estate tax exemption in 2021 — you may want to look into strategies that will allow you to pass that money to your heirs in a way that avoids estate taxes. There are numerous legal techniques you can employ to do this, such as transferring assets and property to a trust, making gifts during your lifetime, setting up family foundations, or leaving money to charity. Even those with smaller estates should keep taxes in mind. Did you know, for example, that life insurance proceeds pass tax-free to beneficiaries? That's important to keep in mind when you're considering how to make sure your spouse and children will be provided for if you die unexpectedly.

5. It's Important to Talk to Your Family about Your Estate Planning Decisions

Disagreements among family members about how to distribute an estate are far from uncommon. Often, those squabbles break out over unexpected or unclear provisions in the deceased's estate plan. If one member of your family feels he/she isn't getting his/her due, it can make the process difficult for everyone. Drawn out legal battles that eat away at the wealth you've accumulated — and wanted to leave to your heirs — may result. Even if you think your family can handle your estate civilly, it may still be a good idea to sit down as a group or with individual family members to discuss your wishes and explain your estate planning choices. If you plan to leave more of your wealth to one child than the other, make sure your children know about that so they don't end up feeling blindsided and betrayed after your death. ○○○

Keep Saving after Retirement

Just because you're retired doesn't mean you should stop saving. Carefully managing your money and looking for ways to save will help ensure you remain financially fit during retirement. Consider these tips:

✔ **Construct a financial plan.** Most retirees fear that they'll run out of money during retirement. To ease those fears, create a financial plan detailing how much money will be obtained from what sources and how that income will be spent. Make sure your annual withdrawal amount won't cause you to deplete your savings. Review your plan annually to ensure you stay on course.

✔ **Consider part-time employment.** Especially if you retire at a relatively young age, you might want to work on at least a part-time basis. Even earning a modest amount can help significantly with retirement expenses. However, if you receive Social Security benefits and are between the ages of 62 and full retirement age, you will lose \$1 of benefits for every \$2 of earnings above \$18,960 in 2021. You might want to keep your income below that threshold or delay Social Security benefits until later in retirement.

✔ **Contribute to your 401(k) plan or individual retirement account (IRA).** If you work after retirement, put some of that money into a 401(k) plan or IRA. As long as you have earned income and meet the eligibility requirements, you can contribute to these plans.

✔ **Try before you buy.** Want to relocate to another city or purchase a recreational vehicle to travel around the country? Before you buy a home in an unfamiliar city or purchase an expensive recreational vehicle, try renting first.

✔ **Keep debt to a minimum.** Most consumer loans and credit cards charge high interest rates that aren't tax deductible. During retirement, that can put a serious strain on your finances. If you can't pay cash, avoid the purchase.

✔ **Look for deals.** Take the time to shop wisely, not just at stores, but for all purchases. When was the last time you compared prices for auto or home insurance? Can you find a credit card with lower fees and interest rates? When did you last refinance your mortgage? ○○○

Evaluating P/E Ratios

Price/earnings (P/E) ratios are a common measure of stock value, both for individual stocks and the overall market. Calculating a P/E ratio is straightforward — it is simply the price of a single share of stock divided by the company's per share earnings.

When considering public companies, it seems reasonable that well-established businesses growing in a fairly predictable pattern would command a higher P/E ratio than a small private business. Typically, companies with higher growth rates command higher P/E ratios.

The difficulty is deciding what a reasonable P/E ratio is for a particular company or for the overall stock market. It generally helps to follow the P/E ratios of stocks that interest you, along with companies in similar industries, to develop a feel for how the P/E ratios fluctuate. Reviewing a company's P/E ratio for prior years can also be helpful. If a company's growth rate in the past is expected to continue in the future and market conditions are similar, you might not expect much change in P/E ratios. But you also must evaluate whether changes to the company, its industry, or the overall stock market would cause an increase or decrease in the company's P/E ratio. ○○○

Financial Thoughts

Researchers found that investors with larger accounts follow more contrarian strategies, reflect the news in their trades, and experience subsequent gains, while smaller accounts tend to follow momentum-based strategies, fail to account for the news when placing trades, and incur trading losses. They also found that these trends were stronger

for younger men. The study's authors found that all groups of individual investors lose money, though individual investors with larger account sizes lose significantly less on average (Source: *AII Journal*, August 2020).

Another study found that investors with a high level of financial literacy take too many risks, overborrow, and hold naive

financial attitudes. However, this high level of financial literacy also lends itself to better retirement planning, since people with more financial literacy are more likely to have a retirement savings plan. In addition, financially literate households earn higher financial returns than illiterate ones. (Source: *AII Journal*, August 2020). ○○○