Regent Financial Services

October 2017

Managing Debt While Saving for Retirement

It's a catch-22: You feel that you should focus on paying down debt, but you also want to save for retirement. It may be comforting to know you're not alone. According to an Employee Benefit Research Institute survey, 18% of today's workers describe their debt level as a major problem, while 41% say it's a minor problem. And workers who say that debt is a problem are also more likely to feel stressed about their retirement savings prospects.1 Perhaps it's no surprise, then, that the largest proportion (21%) of those who have taken a loan from their employer-sponsored retirement plans have done so to pay off debt.2 Borrowing from your plan can have negative consequences on your retirement preparedness down the road. Loan limits and other restrictions generally apply as well.

The key in managing both debt repayment and retirement savings is to understand a few basic financial concepts that will help you develop a strategy to tackle both.

Compare potential rate of return with interest rate on debt

Probably the most common way to decide whether to pay off debt or to make investments is to consider whether you could earn a higher rate of return (after accounting for taxes) on your investments than the interest rate you pay on the debt. For example, say you have a credit card with a $10,000 balance that carries an interest rate of 18%. By paying off that balance, you're effectively getting an 18% return on your money. That means your investments would generally need to earn a consistent, after-tax return greater than 18% to make saving for retirement preferable to paying off that debt. That's a tall order for even the most savvy professional investors.

And bear in mind that all investing involves risk; investment returns are anything but guaranteed. In general, the higher the rate of return, the greater the risk. If you make investments rather than pay off debt and your investments incur losses, you may still have debts to pay, but you won't have had the benefit of any gains. By contrast, the return that comes from eliminating high-interest-rate debt is a sure thing.

Are you eligible for an employer match?

If you have the opportunity to save for retirement via an employer-sponsored plan that matches a portion of your contributions, the debt-versus-savings decision can become even more complicated.

Let's say your company matches 50% of your contributions up to 6% of your salary. This means you're essentially earning a 50% return on that portion of your retirement account contributions. That's why it may make sense to save at least enough to get any employer match before focusing on debt.

And don't forget the potential tax benefits of retirement plan contributions. If you contribute pre-tax dollars to your plan account, you're immediately deferring anywhere from 10% to 39.6% in taxes, depending on your federal tax rate. If you're making after-tax Roth contributions, you're creating a source of tax-free retirement income.3

Consider the types of debt

Your decision can also be influenced by the type of debt you have. For example, if you itemize deductions on your federal tax return, the interest you pay on a mortgage is generally deductible — so even if you could pay off your mortgage, you may not want to. Let's say you're paying 6% on your mortgage and 18% on your credit card debt, and your employer matches 50% of your retirement account contributions. You might consider directing some of your available resources to paying off the credit card debt and some toward your retirement account in order to get the full company match, while continuing to pay the mortgage to receive the tax deduction for the interest.

Other considerations

There's another good reason to explore ways to address both debt repayment and retirement savings at once. Time is your best ally when saving for retirement. If you say to yourself, "I'll wait to start saving until my debts are completely paid off," you run the risk that you'll never get to that point, because your good intentions about paying off your debt may falter. Postponing saving also reduces the number of years you have left to save for retirement.

It might also be easier to address both goals if you can cut your interest payments by refinancing debt. For example, you might be able to consolidate multiple credit card payments by rolling them over to a new credit card or a debt consolidation loan that has a lower interest rate.

Bear in mind that even if you decide to focus on retirement savings, you should make sure that you're able to make at least the minimum monthly payments on your debt. Failure to do so can result in penalties and increased interest rates, which would defeat the overall purpose of your debt repayment/retirement savings strategy.

See resources on page 2

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Resources from Page 1:

1 Employee Benefit Research Institute, 2017 Retirement Confidence Survey

2 Employee Benefit Research Institute, 2016 Retirement Confidence Survey

3 Distributions from pre-tax accounts will be taxed at ordinary income tax rates. Early distributions from pre-tax accounts and nonqualified distributions of earnings from Roth accounts will be subject to ordinary income taxes and a 10% penalty tax, unless an exception applies. Employer contributions will always be placed in a pre-tax account, regardless of whether they match pre-tax or Roth employee contributions.

Is the Social Security Administration still mailing Social Security Statements?

Your Social Security Statement provides important information about your Social Security record and future benefits. For several years, the Social Security Administration (SSA) mailed these statements every five years to people starting at age 25, but due to budgetary concerns, the SSA has stopped mailing Social Security Statements to individuals under age 60.

Workers age 60 and over who aren't receiving Social Security benefits will still receive paper statements in the mail, unless they opt to sign up for online statements instead. If you're age 60 or older, you should receive your statement every year, about three months before your birthday. The SSA will mail statements upon request to individuals under age 60.

However, the quickest way to get a copy of your Social Security Statement is to sign up for a *my* Social Security account at the SSA website, ssa.gov. Once you've signed up, you'll have immediate access to your statement, which you can view, download, or print. Statement information generally includes a projection of your retirement benefits at age 62, at full retirement age (66 to 67), and at age 70; projections of disability and survivor benefits; a detailed record of your earnings; and other information about the Social Security program.

The SSA has recently begun using a two-step identification method to help protect *my* Social Security accounts from unauthorized use and potential identity fraud. If you've never registered for an online account or haven't attempted to log in to yours since this change, you will be prompted to add either your cell phone or email address as a second identification method. Every time you enter your account username and password, you will then be prompted to request a unique security code via the identification method you've chosen, and you need to enter that code to complete the log-in process.

What are some tips for reviewing my Medicare coverage during Medicare Open Enrollment?

During the Medicare Open Enrollment Period that runs from October 15 through December 7, you can make changes to your Medicare coverage that will be effective on January 1, 2018. If you're satisfied with your current coverage, you don't need to make changes, but it's a good idea to review your options.

During Open Enrollment, you can:

- Change from Original Medicare to a Medicare Advantage plan, or vice versa
- Switch from one Medicare Advantage plan to another Medicare Advantage plan
- Join a Medicare prescription drug plan, switch from one Medicare prescription drug plan to another, or drop prescription drug coverage

The official government handbook, *Medicare & You,* which is available electronically or through the mail, contains detailed information about Medicare that should help you determine whether your current coverage is appropriate. Review any other information you receive from your current plan, which may include an Annual Notice of Change letter that lists changes to your plan for the upcoming year.

As you review your coverage, here are a few points to consider:

- What were your health-care costs during the past year, and what did you spend the most on?
- What services do you need and which health-care providers and pharmacies do you visit?
- How does the cost of your current coverage compare to other options? Consider premiums, deductibles, and other out-of-pocket costs such as copayments or coinsurance; are any of these costs changing?

If you have questions about Medicare, you can call 1-800-MEDICARE or visit the Medicare website at medicare.gov. You can use the site's Medicare Plan Finder to see what plans are available in your area and check each plan's overall quality rating.

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Mitch Robinson
Chief Compliance Officer

This month we are featuring Mitch and his favorite recipe, and vacation destination!

Favorite Recipe:

Mitch's Marvelous Chili!

Favorite Vacation Destination:

Alaska!

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Mitch's Marvelous Chili!

Ingredients
2 lbs ground venison or beef
1 can (8 oz) tomato sauce
2 cans Ranch style beans
½ medium white onion diced
2 cups water
Mitch's spice pack (see below)

Spice Pack
2 T. chili powder
1 tsp. black pepper
1 tsp. oregano
1 ½ tsp. ground cumin
2 tsp. garlic salt

Optional spice pack ingredients
For spicy add ½ tsp. red pepper.
For sweeter add 2 T. brown sugar.

Instructions
Brown the meat and onion together in a skillet. In separate pot, add water, tomato sauce, beans and spice pack. Add browned meat and onions and bring to boil. Simmer for 1 hour with lid off, stirring occasionally.

Experiment, have fun!

Alaska

A destination on Mitch's bucket list is to travel Alaska, either by foot, car or cruise. Mitch is an avid outdoors-man and watches survival shows anytime he gets a chance. Seeing the Aurora Borealis (northern lights, a natural light display in the Earth's sky), snow capped peaks, camping, fishing, hiking, boating and wildlife viewing are a few activities he will do once arriving in Alaska!

Alaska is the largest state in the United States by area and the seventh largest subnational division in the world. In addition, it is the 3rd least populous and the most sparsely populated of the 50 United States. The total estimated at 738,432 by the U.S. Census Bureau in 2015, more than quadrupling the combined populations of Northern Canada and Greenland. Approximately half of Alaska's residents live within the Anchorage metropolitan area. Alaska's economy is dominated by the fishing, natural gas, and oil industries, resources which it has in abundance. Military bases and tourism are also a significant part of the economy. Alaska was admitted as the 49th state of the U.S. on January 3, 1959.

So you now know some history on Alaska, want to take a trip? Adventure and Alaska go hand in hand. Where else can you hike an ice-age glacier, skim over the wilderness in a bush plane, watch a massive brown bear snag a salmon from a waterfall or explore millions of acres of pristine parklands? Alaska's raw, beautiful and unrelenting terrain teams with opportunities for backcountry experiences unlike anything else in the world—and there's a trip to suit every ability level. Not too comfortable with the great outdoors but still want a little adventure? Day excursions and guided tours allow you to discover the Alaska wilderness during the day and still sleep in a comfortable bed at night.

Alaska spills over with breathtaking sights you won't find anywhere else: the crystalline blue of glacier ice, brown bears snatching salmon from a stream, the northern lights dancing overhead and 20,310' Denali, the highest peak in North America, to name just a few. Keep your eyes peeled for soaring bald eagles, colorful puffins, stately sandhill cranes, shy black bears, acrobatic humpback whales and of course the regal, knobby-kneed moose.

Are you ready to travel Alaska? Mitch is!

That time of year is coming…

* * *

Save the Date!

Saturday, December 2nd, 9:00am

11th Annual
Family Christmas Movie!

* * *

AMC Theatres (Tulsa Hills)
8307 S. Olympia Ave. W., Tulsa, OK 74132

We will provide the popcorn, donuts, and drinks, if you bring your children and grandchildren!

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