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RETIREMENT IN SIGHT

MONTHLY NEWS AND INFORMATION FOR CURRENT AND FUTURE RETIREES

QUOTE OF THE MONTH

"IT'S ESPECIALLY IMPORTANT FOR US TO NEVER LOSE THE DESIRE TO TRY SOMETHING NEW. IT'S COURAGEOUS TO, AT THIS AGE, TRY SOMETHING NEW AND ALLOW YOURSELF TO BE A BEGINNER AT SOMETHING."

BRYAN CRANSTON

CAN YOU DETERMINE YOUR IDEAL RETIREMENT INCOME BY FORMULA?

Perhaps you could do so in a simpler financial world – but as retirement comes with financial complexities, a purely formulaic approach may fall short. There are basic calculations that may give you a "ballpark figure" for what your initial retirement income might be and your "ideal" retirement income. Still, they may not account for certain factors that might prompt you to spend more (or less) in a particular year.

Take inflation. 2022 has seen the highest inflation in 40 years. But not all retirement expenses may increase by that amount in a year. Some medical, travel, and leisure expenses have outpaced inflation. Another factor that makes "retirement by formula" difficult is Social Security. Some people file for Social Security earlier than anticipated due to health reasons or changes. When Social Security income enters the picture earlier (or later) than first assumed, that may prompt a revision to retirement income projections. MarketWatch notes that 50% of working men claim Social Security at age 62, and almost 70% of seniors start receiving Social Security benefits before Social Security's full retirement age (66 or 67, depending on your birthdate). Your retirement spending needs (both core and discretionary) are a major focus of your retirement strategy, and those needs help determine your "ideal" income.[1]

TRAVEL TIP

A portable luggage scale could save you money (and pay for itself)

If you're flying, you know that luggage overage fees can be expensive and present you with an unpleasant surprise on the way home. A small portable luggage scale, typically costing $10-15, may help you avoid the overages you can risk by overpacking.

Source: OrdinaryTraveler.com, July 11, 2022[2]

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CHRONIC INFLAMMATION: THE CAUSE OF TOO MANY MALADIES?

In recent decades, medical journals and news outlets have devoted more attention to the diseases linked to sustained inflammation – in the joints, the digestive system, the liver or pancreas, and even the mouth or eyes. Normally, inflammation is a healthy response on the part of the body to injury or infection and part of the healing process. When that response does not cease, it can lead to health issues in the present or future.

Chronic inflammation is when white blood cells attack cells surrounding or within healthy organs and tissues. Visceral fat cells are a common target; the more you weigh, the more visceral fat cells you have. Accumulated scientific research suggests that chronic inflammation promotes intestinal and oral cancers, ulcerative colitis and Crohn's disease, Type 2 diabetes, rheumatoid arthritis, and even heart disease. The inflammation may be invisible to the eye or unfelt within the body, but a blood test or a physical may help to detect it. Diet and exercise can play a major role in managing or reducing chronic inflammation. Losing weight and staying active may be the cheapest and simplest ways to fight back against the threat, preferably while following the guidance and advice of trusted health care professionals.[3]

DID YOU KNOW?

Abraham Lincoln: Hall of Fame Wrestler

Abraham Lincoln was not a vampire hunter (as a 2012 horror movie bizarrely proclaimed). Still, he was a formidable wrestler in his youth, with only one recorded defeat in matches over 12 years. The National Wrestling Hall of Fame inducted him as an "Outstanding American" competitor in the sport. At 6'4", the lean, wiry Lincoln was gigantic compared to many men of his time.[4]

ON THE *BRIGHT SIDE*

According to the Employee Benefit Research Institute's 2022 Retirement Confidence Survey, 52% of U.S. workers think that in the future, they will receive Social Security retirement benefits equal to or greater in value than the retirement benefits Social Security pays out today. In 2018, only 28% of survey respondents held this belief.[5]

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BRAIN TEASER

If you spell out Roman numerals as words (one, two, three, etc.), how far do you have to go until you encounter the letter A?

STUMPED? SEE THE BACK PAGE FOR THE ANSWER!

CITATIONS.

1 - MarketWatch, August 28, 2021
2 - Ordinary Traveler, July 21, 2022
3 - Harvard Medical School, April 1, 2020
4 - The History Channel, January 21, 2022
5 - Employee Benefit Research Institute, July 12, 2022

Should You Prepare to Retire on 80% of Your Income?

Examining a long-held retirement assumption.

A classic retirement preparation rule states that you should retire on 80% of the income you earned in your last year of work. Is this old axiom still true, or does it need reconsidering?

Some new research suggests that retirees may not need that much annual income to keep up their standard of living.

The 80% rule is really just a guideline. It refers to 80% of a retiree's final yearly gross income, rather than his or her net pay. The difference between gross income and wages after withholdings and taxes is significant to say the least.[1]

The major financial challenge for the new retiree is how to replace his or her paycheck, not his or her gross income.

So concluded Texas Tech University professor Michael Finke, who analyzed the 80% rule and published his conclusions in *Research,* a magazine for financial services industry professionals. Finke noted four factors that the 80% rule does not recognize. One, retirees no longer need to direct part of their incomes into retirement accounts. Two, they no longer involuntarily contribute to Social Security and Medicare, as they did while working. Three, most retirees do not have a daily commute, nor the daily expenses that accompany it. Four, people often retire into a lower income tax bracket.[1]

Given all these factors, Finke concluded that the typical retiree could probably sustain their lifestyle with no more than 77% of an end salary, or 60% of his or her average annual lifetime income.[1]

Retirees need to determine the expenses that will diminish in retirement. That determination, rather than a simple rule of thumb, will help them realize the level of income they need.

Imagine two 60-year-old workers, both earning identical salaries at the same firm. One currently directs 25% of her pay into a workplace retirement strategy. The other directs just 5% of her pay into that strategy. The worker deferring 25% of her salary into retirement savings needs to replace a lower percentage of their pay in retirement than the worker deferring only 5% of hers. Relatively speaking, the more avid retirement saver is already used to living on less.

This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.

New retirees may not necessarily find themselves living on less. The retirement experience differs for everyone, and so does retiree personal spending. A recent Employee Benefit Research Institute survey found that over a third of retirees report spending *more* than they had originally expected. Only 9% reported that they were spending less than they had expected.[2]

A timeline of typical retiree spending resembles a "smile." A 2013 study from investment research firm Morningstar noted that a retiree household's inflation-adjusted spending usually dips at the start of retirement, bottoms out in the middle of the retirement experience, and then increases toward the very end.[3]

A retirement budget is a very good idea. There will be some out-of-budget costs, of course, ranging from the pleasant to the unpleasant. Those financial exceptions aside, abiding by a monthly budget (with or without the use of free online tools) may help you to rein in any questionable spending.

Any retirement income strategy should be personalized. Your own strategy should be based on an accurate, detailed assessment of your income needs and your available income resources. That information will help you discern just how much income you will need when retired.

Citations

1 - http://www.michaelfinke.com/research.html [2022]

2 - https://www.ebri.org/retirement/retirement-confidence-survey [2022]

3 - https://www.thestreet.com/retirement/want-to-be-rich-in-retirement-plan-better-save-more [2/23/22]

MARKET PERFORMANCE

01/01/2021 to 08/31/2022

DJIA ^DJI Down –13.45%

S&P 500 ^GSPC Down –17.25%

NASDAQ ^IXIC Down –25.12%

Russell 2000^RUT Down –19.26%

*Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

5 Retirement Concerns Too Often Overlooked

Baby boomers entering their "second acts" should think about these matters.

Retirement is undeniably a major life and financial transition. Even so, baby boomers can run the risk of growing nonchalant about some of the financial challenges that retirement poses, for not all are immediately obvious. In looking forward to their "second acts," boomers may overlook a few matters that a thorough retirement strategy needs to address.

RMDs. The Internal Revenue Service directs seniors to withdraw money from qualified retirement accounts after age 72. This class of accounts includes traditional IRAs and employer-sponsored retirement plans. These drawdowns are officially termed Required Minimum Distributions (RMDs).[1]

Taxes. Speaking of RMDs, the income from an RMD is fully taxable and cannot be rolled over into a Roth IRA. The income is certainly a plus, but it may also send a retiree into a higher income tax bracket for the year.[1]

Retirement does not necessarily imply reduced taxes. While people may earn less in retirement than they once did, many forms of income are taxable: RMDs; investment income and dividends; most pensions; even a portion of Social Security income depending on a taxpayer's total income and filing status. Of course, once a mortgage is paid off, a retiree loses the chance to take the significant mortgage interest deduction.[2]

Health care costs. Those who retire in reasonably good health may not be inclined to think about health care crises, but they could occur sooner rather than later – and they could be costly. A report by HealthView Services found that even with additional insurance coverages such as Medicare Part D, Medigap, and dental insurance, a healthy 65-year-old couple can expect to pay almost $208,000 out-of-pocket for their healthcare expenses.[3]

Eldercare needs. Those who live longer or face health complications will probably need some long-term care. One month's stay in a private room in a nursing home costs an average of $9,000 nationally, so it's important to consider these when preparing for retirement. Long-term care insurance is expensive, though, and can be difficult to obtain.[4]

One other end-of-life expense many retirees overlook: funeral and burial costs. Preparing to address this expense may help surviving spouses and children.

Rising consumer prices.
Historically, healthcare costs inflation has risen between 1.5-2 times the Consumer Price Index. For a 65-year-old couple, this equates to an additional projected $85,917 in lifetime retirement healthcare costs. Retirees would be wise to invest in a way that gives them the potential to keep up with increasing consumer costs.[5]

As part of your preparation for retirement, give these matters some thought. Enjoy the here and now, but recognize the potential for these factors to impact your financial future.

Citations.
1 - thebalance.com/required-minimum-distributions-2388780 [1/14/22]
2 - https://www.investopedia.com/articles/retirement/12/will-you-pay-taxes-during-retirement.asp [7/31/22]
3 - https://hvsfinancial.com/wp-content/uploads/2020/12/2021-Retirement-Healthcare-Costs-Data-Report.pdf [2021]
4 - https://www.genworth.com/aging-and-you/finances/cost-of-care.html [2022]
5 - https://hvsfinancial.com/wp-content/uploads/2022/03/HVS-Data-Report-Brief-0312222.pdf [2022]

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BRAIN TEASER ANSWER: ONE THOUSAND