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This Issue:

Ways to Repair Your Credit Score

Steps to get your credit rating back toward 720.

We all know the value of a good credit score. We all try to maintain one. Sometimes, though, life throws us a financial curveball and that score declines. What steps can we take to repair it?

Reduce your credit utilization ratio. Your credit utilization ratio (CUR) is the percentage of a credit card's debt limit you have used up. Simply stated, if you have a credit card with a limit of $1,500 and you have $1,300 borrowed on it right now, the CUR for that card is 87%. Carrying lower balances on your credit cards tilts the CUR in your favor and promotes a better credit score.[1]

Review your credit reports for errors. You probably know that you are entitled to receive one free credit report per year from each of the three major U.S. credit reporting agencies – Equifax, Experian, and TransUnion. You might as well request a report from all three at once. As the federal government's Consumer Financial Protection Bureau notes, you can do this at annualcreditreport.com. About 20% of credit reports contain mistakes. Upon review, some borrowers spot credit card fraud; some notice botched account details or identity errors. At its website, the CFPB offers sample letters and instructions you can use to dispute errors.[2]

Reducing the Risk of Outliving your Money

What steps might help you sustain and grow your retirement savings?

"What is your greatest retirement fear?" If you ask any group of retirees and pre-retirees this question, "outliving my money" will likely be one of the top answers. In fact, 51% of investors surveyed for a 2019 AIG retirement study ranked outliving their money as their top anxiety.[1]

Retirees face greater "longevity risk" today. The Census Bureau says that Americans typically retire around age 63. Social Security projects that today's 63-year-olds will live into their mid-eighties, on average. This is a mean life expectancy, so while some of these seniors may pass away earlier, others may live past 90 or 100.[2,3]

If your retirement lasts 20, 30, or even 40 years, how well do you think your retirement savings will hold up? What financial steps could you take in your retirement to try and prevent those savings from eroding? As you think ahead, consider the following possibilities and realities.

Realize that Social Security benefits might shrink in the future. For decades, Social Security typically took in more dollars per year than it paid out. That ongoing surplus – also known as the Social Security Trust Fund – is now projected to dry up by 2035. Congress may act to address this financing issue before then, but the worry is that future retirees could get slightly less back from Social Security than they put in. It may be smart to investigate other potential retirement income sources now.[4]

Understand that you may need to work part time in your sixties and seventies. The income from part-time work can be an economic lifesaver for retirees. What if you worked part time and earned $20,000-30,000 a year? If you can do that for five or ten years, you effectively give your retirement savings five or ten more years to last and grow.

Retire with health insurance and prepare adequately for out-of-pocket costs. Financially speaking, this may be the most frustrating part of retirement. You can enroll in Medicare at age 65, but how do you handle the premiums for private health insurance if you retire before then? Striving to work until you are eligible for Medicare makes economic sense and so does building a personal health care account. According to Fidelity research, a typical 65-year-old couple retiring today will face out-of-pocket health care costs approaching $300,000 over the rest of their lives.[5]

Many people may retire unaware of these financial factors. With luck and a favorable investing climate, their retirement savings may last a long time. Luck is not a plan, however, and hope is not a strategy. Those who are retiring unaware of these factors may risk outliving their money.

- Shawn

Behavior makes a difference. Credit card issuers, lenders, and credit agencies believe that payment history paints a reliable picture of future borrower behavior. Whether you pay off your balance in full, whether you routinely max out your account each month, the age of your account – these are also factors affecting that portrait.[3]

Think about getting another credit card or two. Your CUR is calculated across all your credit card accounts, in respect to your total monthly borrowing limit. So, if you have a $1,200 balance on a card with a $1,500 monthly limit and you open two more credit card accounts with $1,500 monthly limits, you will markedly lower your CUR in the process. There are potential downsides to this move – your credit card accounts will have lower average longevity, and the issuer of the new card will, of course, look at your credit history.[1]

Think twice about closing out credit cards you rarely use. When you realize that your CUR takes all the credit cards you have into account, you see why this may end up being a bad move. If you have $5,500 in consumer debt among five credit cards that all have the same debt limit, and you close out three of them, accounting for $1,300 of that revolving debt, you now have $4,200 among three credit cards. In terms of CUR, you are now using a third of your available credit card balance whereas you once used a fifth.[4]

Creating a Retirement Strategy

Most people just invest for the future. You have a chance to do more.

Across the country, people are saving for that someday called retirement. Someday, their careers will end. Someday, they may live off their savings or investments, plus Social Security. They know this, but many of them do not know when, or how, it will happen. What is missing is a strategy – and a good strategy might make a great difference.

A retirement strategy directly addresses the "when, why, and how" of retiring. It can even address the "where." It breaks the whole process of getting ready for retirement into actionable steps.

This is so important. Too many people retire with doubts, unsure if they have enough retirement money and uncertain of what their tomorrows will look like. Year after year, many workers also retire earlier than they had planned, and according to a 2019 study by the Employee Benefit Research Institute, about 43% do. In contrast, you can save, invest, and act on your vision of retirement now to chart a path toward your goals and the future you want to create for yourself.[1]

Some people dismiss having a long-range retirement strategy, since no one can predict the future. Indeed, there are things about the future you cannot control: how the stock market will perform, how the economy might do. That aid, you have partial or full control over other things: the way you save and invest, your spending and your borrowing, the length and arc of your career, and your health. You also have the chance to be proactive and to prepare for the future.

A good retirement strategy has many elements. It sets financial objectives. It addresses your retirement income: how much you may need, the sequence of account withdrawals, and the age at which you claim Social Security. It establishes (or refines) an investment approach. It examines tax implications and potential tax advantages. It takes possible health care costs into consideration and even the transfer of assets to heirs.

A prudent retirement strategy also entertains different consequences. Financial advisors often use multiple-probability simulations to try and assess the degree of financial risk to a retirement strategy, in case of an unexpected outcome. These simulations can help to inform the advisor and the retiree or pre-retiree about the "what ifs" that may affect a strategy. They also consider sequence of returns risk, which refers to the uncertainty of the order of returns an investor may receive over an extended period of time.[2]

Let a retirement strategy guide you. Ask a financial professional to collaborate with you to create one, personalized for your goals and dreams. When you have such a strategy, you know what steps to take in pursuit of the future you want.

-Mico

1 - ebri.org/docs/default-source/rcs/2019-rcs/rcs_19-fs-2_expect.pdf?sfvrsn=2a553f2f_4 [2019]

2 - investopedia.com/terms/m/montecarlosimulation.asp [6/10/19]
1 - markets.businessinsider.com/news/stocks/more-than-half-of-americans-want-to-live-to-100-but-worry-about-affording-longer-lifespans-1028099976 [4/10/19]
2 - thebalance.com/average-retirement-age-in-the-united-states-2388864 [1/27/19]
3 - ssa.gov/oact/population/longevity.html [3
4 - usatoday.com/story/money/columnist/20 social-security-4-key-trends-you-need-know-benefits/3790032002/ [9/30/19]
5 - fidelity.com/viewpoints/retirement/transition-to-medicare [5/31/19]

Debunking Common Retirement Assumptions

Don't fall for these misconceptions.

Financial generalizations are as old as time. Some have been around for decades, while others have only recently joined their ranks. Let's examine a few.

Retirement means I can stop investing. In the past, retirement was viewed as an "end" in many ways. These days though, retirement is often seen as an opportunity to return to one's passions or just another of life's many chapters. That doesn't mean you should stop investing, however.

My taxes will be lower. That depends on your situation. Some may earn less in retirement, which could lower their tax bracket which may reduce overall taxes. On the other hand, some retirees may end up losing the tax breaks they enjoyed while working. For more insight into your tax situation in retirement, speak with a tax or financial professional. They can help you manage withdrawals from your qualified retirement accounts.[1]

I started saving too late, and now retirement is impossible. No matter how far behind you feel you are, don't lose hope. Remember, you can make larger, catch-up contributions to your Individual Retirement Accounts (IRAs) after age 50. In fact, if you are 50 or older this year, you can put as much as $25,000 into a 401(k) plan.[2]

Withdrawals from traditional IRAs and distributions from 401(k) plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 70½, you must begin taking required minimum distributions.

Medicare will take care of me. Unfortunately, Medicare doesn't cover extended care, if that's the only care you need. Instead, extended care insurance is often the best choice when preparing for retirement.[3]

I'll live on less when I'm retired. Maybe. This one depends on how you approach retirement. In the later phase of retirement, people often choose to live on less. But for many, the first few years of retirement mean traveling and new adventures. In other words, taking a realistic look at where you would like to be in retirement makes all the difference when it comes to retirement costs.

At the end of the day, there is no "one-size-fits-all" retirement strategy. Every individual, couple, or family needs a strategy tailored to their situation, risk tolerance, and financial objectives. With proper preparation and the help of a trusted financial professional, there's no reason you can't create a strategy tailored to whatever life has in store.

-Jim

1 – money.usnews.com/money/retirement/iras/articles/2017-04-03/5-new-taxes-to-watch-out-for-in-retirement [4/3/18]
2 – irs.gov/newsroom/401k-contribution-limit-increases-to-19500-for-2020-catch-up-limit-rises-to-6500#:~:text=The%20contribution%20limit%20for%20employees,increased%20from%20%246%2C000%20to%20%246%2C500. [11/6/19]
3 – medicare.gov/coverage/long-term-care [11/4/19]

Beyond that, 15% of your credit score is based on the length of your credit history – how long your accounts have been open and the pattern of use and payments per account. This represents another downside to closing out older, little-used credit cards.[3]

Alternative credit scoring systems have also emerged. If your credit history has taken a big hit or is spotty, they may end up helping you out. TransUnion's CreditVision Link, the LexisNexis Risk View Score, and the FICO XD2 and UltraFICO scores compiled by Fair Isaac Co. (FICO) are examples. They introduced new scoring criteria for borrowers who may be creditworthy, but lack sufficient credit history to build a traditional credit score or need to rebuild their scores. Cell phone payments, cable TV payments, property records, and other types of data are used by these systems in order to set a credit score.[5]

- Barbie

New Years Fun Facts

* Earliest known New Year celebrations were in Mesopotamia and date back to 2000 BC. .
* 77% of Americans set financial goals as a New Years resolution
* First ball dropping celebration atop One Times Square was held on December 31, 1907

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Upcoming Workshop

2020 Market Outlook

With trade wars, global conflict, and the election in the public eye through the upcoming months, it's more important now than ever to understand how this plays a role in your finances.

Speaker: Adam Scully-Power, Brighthouse Financial Senior Portfolio Strategist

When: **February 27th 6pm-7:30pm**

Where: **IWM Partners Home Office**
9550 Warner Avenue Ste. 300

Check out our newly updated website www.iwmpartners.com for upcoming events and important notices.

To request a formal invitation to event above, please email info@iwmpartners.com or by calling us at (714) 962-8000

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