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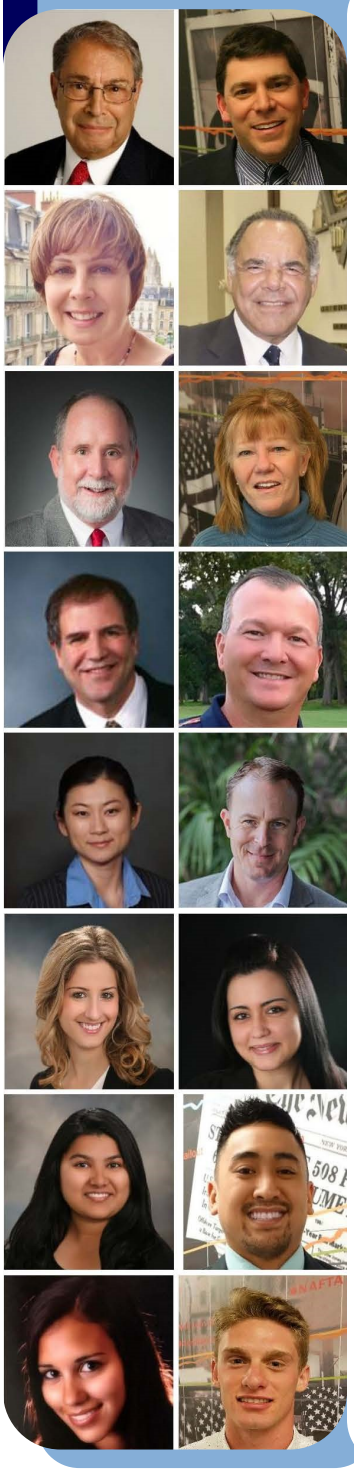
Investment News

November 2019



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. Suppose you walk away from your career with a hypothetical $500,000 in retirement savings. In your first year of retirement, you decide to withdraw $25,000 of that for some of your income. You keep doing that year after year. That money will be gone in 20 years. (Inflation might lead you to draw it down faster.) 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 those 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.

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INSIDE THIS ISSUE:

End-of-the-Year Money Moves

Here are some things you might consider before saying goodbye to 2019.

What financial, business, or life priorities do you need to address for the coming year? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to managing your taxes. You have plenty of choices. Here are a few ideas to consider:

Can you contribute more to your retirement plans this year? In 2020, the contribution limit for a Roth or traditional individual retirement account (IRA) remains at $6,000 ($7,000 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA: singles and heads of household with MAGI above $139,000 and joint filers with MAGI above $206,000 cannot make 2020 Roth contributions.1

Before making any changes, remember that withdrawals from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.

Make a charitable gift. You can claim the deduction on your tax return, provided you itemize your deductions with Schedule A. The paper trail is important here. If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record, payroll deduction record, credit card statement, or written communication from the charity with the date and amount. Incidentally, the Internal Revenue Service (I.R.S.) does not equate a pledge with a donation. If you pledge $2,000 to a charity this year, but only end up gifting $500, you can only deduct $500.1

These are hypothetical examples and are not a replacement for real-life advice. Make certain to consult your tax, legal, or accounting professional before modifying your strategy.

See if you can take a home office deduction for your small business. If you are a small-business owner, you may want to investigate this. You may be able to legitimately write off expenses linked to the portion of your home used to exclusively conduct your business. Using your home office as a business expense involves a complex set of tax rules and regulations. Before moving forward, consider working with a professional who is familiar with homebased businesses.3

Open an HSA. A Health Savings Account (HSA) works a bit like your workplace retirement account. There are also some HSA rules and limitations to consider. You are limited to a $3,550 contribution for 2020, if you are single; $7,100, if you have a spouse or family. Those limits jump by a $1,000 "catch-up" limit for each person in the household over age 55.4

If you spend your HSA funds for non-medical expenses before age 65, you may be required to pay ordinary income tax as well as a 20% penalty. After age 65, you may be required to pay ordinary income taxes on HSA funds used for nonmedical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

Pay attention to asset location. Tax-efficient asset location is an ignored fundamental of investing. Broadly speaking, your least tax-efficient securities should go in pretax accounts, and your most tax-efficient securities should be held in taxable accounts.

Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss. Before adjusting your asset allocation, consider working with an investment professional who is familiar with tax rules and regulations.

Review your withholding status. Should it be adjusted due to any of the following factors?

* You tend to pay a great deal of income tax each year.
* You tend to get a big federal tax refund each year.
* You recently married or divorced.
* A family member recently passed away.
* You have a new job and you are earning much more than you previously did.
* You started a business venture or became self-employed.

These are general guidelines and are not a replacement for real-life advice. So, make certain to speak with a professional who understands your situation before making any changes.

Are you marrying in 2020? If so, why not review the beneficiaries of your retirement accounts and other assets? When considering your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2020, you will need a new Social Security card. Additionally, the two of you may have retirement accounts and investment strategies. Will they need to be revised or adjusted with marriage?

Are you coming home from active duty? If so, go ahead and check the status of your credit and the state of any tax and legal proceedings that might have been preempted by your orders. Make sure any employee health insurance is still there and revoke any power of attorney you may have granted to another person.

Consider the tax impact of any upcoming transactions. Are you planning to sell any real estate this year? Are you starting a business? Do you think you might exercise a stock option? Might any large commissions or bonuses come your way in 2020? Do you anticipate selling an investment that is held outside of a tax-deferred account?

If you are retired and older than 70½, remember your year-end RMD. Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs and 401(k), 403(b), and profit-sharing plans by December 31 of each year. The I.R.S. penalty for failing to take an RMD can be as much as 50% of the RMD amount that is not withdrawn.5

Lastly, should you make 13 mortgage payments this year? If your house is underwater, this makes no sense – and you could argue that those dollars might be better off invested or put in your emergency fund. Those factors aside, however, there may be some merit to making a January 2020 mortgage payment in December 2019. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more.

If you're considering making 13 payments, consider working with a tax, legal, or accounting professional who is familiar with your situation.3

Vow to focus on being healthy and wealthy in 2020. And don't be afraid to ask for help from professionals who understand your individual situation.

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MARKET PERFORMANCE
01/01/2019 to 10/31/2019

DJIA ^DJI Up 15.94%
S&P 500 ^GSPC Up 21.17%
NASDAQ ^IXIC Up 24.97%
Russell 2000 ^RUT Up 15.86%

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

Source: http//finance.yahoo.com

Spotting Credit Trouble

What you need to know.

Americans aged 45 to 54, who have credit card balances, carry an average debt of $9,096 per individual.[1]

The wise use of credit is a critical skill in today's world. Used unwisely, however, credit can rapidly turn from a useful tool to a crippling burden. There are several warning signs that you may be approaching credit problems:

Have you used one credit card to pay off another?

Have you used credit card advances to pay bills?

Do you regularly use a charge card because you are short on cash?

Do you charge items you might not buy if you were paying cash?

Do you need to use your credit card to buy groceries?

Are you reluctant to open monthly statements from creditors?

Do you regularly charge more each month than you pay off?

Do you write checks today on funds to be deposited tomorrow?

Do you apply for new credit cards, so you can increase borrowing?

Are you receiving late and over -limit credit card charges?

It is important to recognize the warning signs of potential credit problems. The quicker corrective action is taken the better. Procrastinating is almost a sure way to guarantee that you may face financial difficulty down the road.

The lowdown on those free credit scores. Did you know the credit score provided to you may be different from the one provided to lenders?

The first thing you should know is that you have a right to see your credit report once annually without cost. To receive your free credit report you can visit www.AnnualCreditReport.com.

This report will contain important information that may affect your credit score.
While your credit report can be obtained for free, your credit score will cost you money, except if you have been denied a loan based on your credit score, in which case you may obtain your credit score for free.

Your credit score is a numerical representation of your creditworthiness, which considers past and current credit activities, including any late payments, judgments, liens, bankruptcies, and foreclosures.

When you see an offer for getting your free credit score, it may be a marketing-driven incentive to get you to sign up for a fee-based credit monitoring service. The score may be only available at no cost if you agree to sign up for a trial subscription and don't cancel prior to the end of that trial period.

The dirty little secret of credit scores. Before you purchase your credit score, understand that the methodology used to calculate the score you buy is different from that used to determine the credit score lenders receive.

There are hundreds of methods for calculating an individual's credit score, and many lenders use private models with proprietary outcomes. While knowing your credit score may be important, it may be more vital to review your credit report to correct any errors that may be hurting your score and take the necessary steps to improve your credit profile.

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Cybersecurity

Protecting yourself from potential calamity.

Cybercrime affects both large corporations and private individuals. You've likely read about the large data breaches in the business world. These crimes are both expensive and on the rise. The U.S. Identity Theft Resource Center says that these corporate data breaches reached a peak of 1,632 in 2017. The response to the growing need for data protection has been swift and powerful; venture capitalists have invested $5.3 billion into cybersecurity firms.[1]

That's good news for the big companies, but what about for the individual at home? What can you do to protect data breaches to your personal accounts?

For most private individuals, the key idea is to both:
* Know what to do if you've had a data breach.
* Know what you can do that might help prevent a data breach.

Total cybersecurity for your financial matters isn't something that can be strategized in a single short article like this one, but I would like to offer you two suggestions that can help you get started. Both can be done from home and represent *reactive* and *preventative* measures.

Credit Freeze. By *reactive*, I mean that a step that you can take after the fact. In many cases, a credit freeze might be a reaction to identity theft or a data breach. What it specifically does is restrict access to your credit report, which has information that could be used to open new lines of credit in your name. The freeze prevents this, but it will not prevent a criminal from, for instance, using an active credit card number, if they've discovered it. For that reason, you still have to monitor for unauthorized transactions during the freeze.[2]

While the freeze is in place, you can still get your free annual credit report. You also won't have issues with credit background searches for job or renter's applications or when you buy insurance – the freeze doesn't affect those areas of your credit history. You can even apply for a new line of credit during a credit freeze, though that requires a temporary or permanent elimination of the freeze during the process. This can be done through either a call to the big three credit reporting agencies (Equifax, Experian, and Transunion) or a visit to their respective websites.[2]

Password Manager. This is a *preventative* measure. Yes, we all know the poor soul who uses "Password" as their password. While you are probably not that far gone, the truth is that there are many tricks that cybercrooks use to learn or intuit our passwords. In fact, 20% of Internet consumers have experienced some sort of account compromise. That comes at a time when about 70% of consumers operate 10 or more accounts. A few, against best practice, will use the same password across each of those accounts. A good security measure against that is password manager software – applications that allow us to keep all our numerous passwords encrypted in a vault and drop them into our browsers when requested. While yes, there are options to save these passwords, encrypted on most browsers, these security measures are limited. Password managers are focused solely on security and are more frequently updated than the browser security features might be. That attention might be difference between a criminal obtaining access to your sensitive personal information or being blocked in the attempt.[3,4]

While this is a very basic pair of tips, they are worth thinking about and may prove to be helpful in your efforts to prevent identity theft. There are, however, additional, more-advanced choices for you to explore. Talk with your trusted financial professional about other cybersecurity best practices that you might consider.

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