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WINTER 2020

How to Catch Up on Retirement Savings

Are you on the other side of 40 without substantial savings for retirement? You're not alone. Many people never develop a budget (60% of people according to the Employee Benefit Research Institute) or do any calculations of what they need to save for retirement (*The Balance*, May 31, 2019).

It's not too late to start saving, but it will take a lot of concentrated effort to get on the right track to a comfortable retirement.

Here are some strategies you can put in place to boost your retirement savings:

Estimate How Much Money You'll Need in Retirement — The first step is knowing how much you will need to live on in retirement. Most experts agree that you will need at least 75% of your pre-retirement income to fund your retirement. Make sure to do a detailed analysis of your likely retirement expenses.

Determine Your Income Sources — Once you have a good idea of how much money you will need for retirement, you then need to determine the income sources you'll have. Look at what your Social Security benefit will be at various ages. Do you have a pension from a previous or current employer? If you have a 401(k) plan, you need to understand what its expected value will be at retirement age.

Set Goals and Develop a Plan — If you have a gap between your income sources and the amount of money you'll need to retire, you have to put strategies in place to close the gap. Set a goal of how much you'll need to save and in what time frame. Because you're playing catch-up, you can't afford to be too conservative with your investment selections, but you can develop a well-balanced plan that

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Your Bond Allocation

As your needs for safety of principal and a steady income stream become more important, the percentage of bonds you own is likely to increase. Some factors to consider when deciding how much to allocate to bonds include:

✔ **Your risk tolerance.** One way to assess the percentage of bonds to include in your portfolio is to look at how holding varying percentages of stocks and bonds would have impacted your average return.

✔ **Your time horizon.** The longer your time horizon for investing, the more risk you can typically tolerate, since you have more time to overcome any significant downturns in your portfolio. However, in all situations, make sure you're comfortable with the percentage allocated to each category.

✔ **Your return needs.** Your need to emphasize income or growth is likely to change over your life. When your needs for a predictable income stream become more important, such as when retirement approaches, you may want to allocate more to bonds. ❍❍❍

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How to Catch Up

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will help you meet your goals with a risk tolerance that is comfortable for you.

Max Out Employer-Sponsored Plans — Hopefully, you have access to a 401(k) plan or some other type of retirement account. It may be difficult, but you should try to make the annual maximum contribution, which is $19,500 in 2020. This is one of the best ways to save for retirement because it automatically comes out of your paycheck. A traditional 401(k) plan will reduce your taxable income, which will help alleviate pressure. For example, if you are in a 35% tax bracket, your contributions will only cost you 65 cents for every dollar you contribute to the account.

If you are aged 50 or older, you can also make catch-up contributions of $6,500 in 2020 for a total contribution of $26,000. And you should always contribute enough to get the employer match if your employer has a matching program.

If you don't have an employer plan (or even if you do), you should start investing in a traditional or Roth IRA. You should set up an automatic transfer from your checking account to your retirement account. You can make contributions up to $6,000 in 2020 and $7,000 if you are aged 50 or over.

Downsize Your Life — By the time you retire, you will want a stream of predictable income to cover your expenses with a mixture of Social Security, a pension, and withdrawals from your retirement savings plan. If you won't be able to cover your expenses with these income sources, it may mean you need to downsize your life, which may require some sacrifices.

If you're an empty nester and still living in a big house, it has probably appreciated in value, and you may want to consider selling it and moving to a smaller home. In

addition to saving on your mortgage payment, you save more on utilities, insurance, maintenance, and property taxes.

You may also need to think of other ways to cut expenses, such as driving a used car versus a new car or only going on one vacation a year versus two or more.

You don't want to wait until retirement to make these changes, since downsizing while you are still working will allow you to put these savings into your retirement plan.

Take a Second Job or Work Longer — If you have a serious gap in your retirement savings, you may need to consider taking a second job so you can invest the earnings. Get creative about ways to make more money. Do you have the writing skills to be a freelance writer? Maybe you're a great seamstress? A graphic designer or perhaps a programmer? Even a job as a pet sitter or dog walker may give you the extra income you need for savings.

You may also need to consider extending the time frame you are planning to work and retire later. For example, if you're 55 and want to retire at 62, contributing 20% of your income until retirement still won't be as impactful as working three more years until you are age 65.

If you wait to retire at age 70, you'll have even more time to rack up your retirement savings, and you will have fewer retirement years to cover. Additionally, if you wait until age 70 to take Social Security benefits, you could significantly increase your monthly benefit.

Pay Off Your Debt — It's not only about saving; it's about eliminating debt. If you have thousands of dollars in credit card balances, your retirement savings is most likely going to your credit card company in interest payments. Make a concerted effort to pay off your credit card balances and continue to pay them in full every month.

With every dollar you find to put toward your retirement savings, set up an automatic transfer from your checking account or a direct contribution from your paycheck. This will help to ensure the money is going directly to your retirement savings.

Please call to discuss your retirement savings plans in more detail. ❍❍❍

Avoid These Estate-Planning Mistakes

When it comes to estate planning, Americans make a lot of mistakes. From putting off creation of documents, forgetting to update their plan after a divorce or remarriage, or neglecting to leave instructions about what to do with certain assets, many people are leaving a legacy of frustration and confusion for their heirs. You can save those you leave behind money and time by avoiding these estate-planning mistakes.

Not Having a Will — Not having a will is probably the biggest estate planning mistake you can make. It's also one of the easiest to fix. An attorney can help you draft a simple will that offers instructions on what to do with your assets and who should care for your minor children, among other matters. What happens if you don't have a will? The courts decide who gets your property and who will assume guardianship of your kids — and it may not be who you would have chosen.

Not Updating Your Estate Plan after Life Changes — Some people think that estate planning is a set-it-and-forget-it issue. But your estate plan needs to evolve with your life. If your family grows, a marriage ends, or you acquire new wealth, you may need to update your will, beneficiary designations, and other documents. One key thing to remember: Check your beneficiary designations on retirement plans and insurance polices periodically. The people listed on these forms will receive those assets, even if your will says otherwise. If you name one child as the beneficiary of your IRA and then neglect to add your second child to the form after her birth, you'll end up disinheriting one of your children.

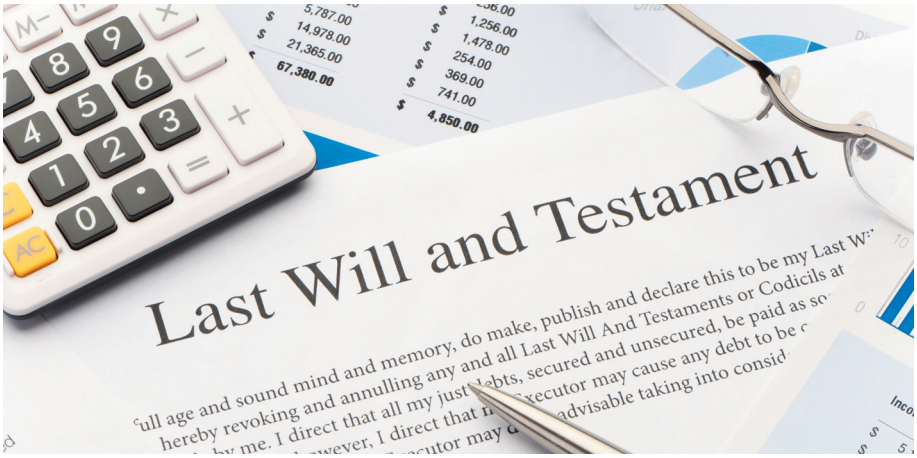
Not Working with an Estate-Planning Attorney — Online legal sites and fill-in-the-blank documents have given many people the mistaken idea that estate planning is a do-it-yourself activity. Nothing could be further from the truth. The legal issues surrounding estates can be quite complicated. A skilled attorney (working in partnership with your other advisors) can help you avoid complications and design an estate plan that is complete without unintended consequences.

Not Thinking about Long-Term Care — The average 65-year-old has a 68% chance of becoming disabled and needing long-term care during their lifetime. If you don't have a plan for how you might pay for that care, you can quickly exhaust your savings, leaving little for your heirs when you do pass away. Smart planning strategies, like purchasing long-term-care insurance or certain types of life insurance, can allow you to protect your wealth for your loved ones while also helping you afford the care you need.

Not Taking Steps to Avoid Family Conflict — Disagreements among family members over how your assets are distributed after your death can lead to permanently damaged relationships and expensive litigation. A detailed, well-thought-out estate plan will help prevent conflict, as your wishes will be clear and there will be less opportunity for legal challenges. Even more important, however, is thinking about your unique family dynamics and taking steps to ensure everyone you love is treated fairly. For example, if you have children from a prior marriage, you may need to take special steps to make sure they aren't disinherited if you pass away. In some cases, you may be able to head off trouble by sitting down with your loved ones and explaining your plans, so no one is blindsided after your death.

Not Thinking about Digital Assets — These days, many of us live a significant portion of our lives online. As you develop your estate plan, you may want to include instructions for how to handle your digital assets. Putting together a master list of accounts and passwords (particularly for financial accounts) will make things easier on your family as they try to sort out your affairs. But you may also want to include information about your other online assets, like social media accounts, online photo albums, libraries of digital videos and music, and even online businesses, so that your family can gain access to that information.

Fortunately, it is fairly easy to avoid — or correct — any of these estate-planning mistakes. Working with an experienced estate-planning attorney, along with your financial advisor and other professionals, can allow you to create a comprehensive estate plan that protects you and your family. ❍❍❍



How to Control Your Spending

A lot of our issues are less about how much we *make* and more about how much we *spend*. When it comes to controlling our expenses, sometimes we just don't know where our money goes. This means we could all use a few tips to cut down on spending:

✔ Break down monthly discretionary expenditures. Look for ways to reduce spending, either by cutting back or choosing less expensive options.

✔ Take a look at your major expenditures. While you may have resigned yourself to large monthly payments for your auto or homeowners insurance, you can actually save a lot by looking around. Consider strategies to reduce your income tax and research whether or not it makes sense to refinance your home.

✔ Create a written spending plan. Budget for what you need on a monthly basis and commit to abstaining from off-budget items.

✔ Stop using your credit cards. Go old school and use paper money for a few months to get a better feel for how much you are really spending.

✔ When faced with an impulse purchase option, sleep on it instead. You can always come back later if you've taken time to think about it.

✔ Before you make a major purchase, think carefully about the long-term expenses involved. If you are about to buy a new car, remember that sticker price is just the beginning — maintenance, upkeep, and insurance costs also need to be factored into the overall investment. Consider a less expensive or used car and keep it for several years.

✔ Once you are preapproved for a mortgage amount, commit to spending much less than the maximum allowed. Remember that your monthly mortgage costs are not the only expenses of home ownership. Living well within your means also means more money left over for savings.

We've all made poor money decisions at some point in our lives. The trick is to be intentional in making wiser choices about how we spend our resources and get our savings on track for the future. Please call if you'd like help in this area. ❍❍❍

Teach Children about Credit Cards

Consider the following tips to help your child manage credit responsibly:

✔ **Help your child select a credit card.** Go through several offers with him/her, comparing interest rates, annual fees, grace periods, and penalties.

✔ **Explain the basics of credit card debt.** Make sure your child understands that not paying the balance in full every month can result in a significant amount of interest. Try to instill the concept of paying credit card balances in full every month.

✔ **Urge your child to only use credit cards for necessities, not to fund luxuries.** Credit cards can be used for items like book purchases and car repairs, but they should be avoided for clothing, dining out, and entertainment, unless your child can pay the balance in full every month.

✔ **Go over your child's credit card statement every month.** Show your child how to compare receipts to credit card statements. Go over all purchases and explain how credit cards can increase impulse purchases. ❍❍❍

Financial Thoughts

Approximately 78% of Americans say they are extremely or somewhat concerned about not having enough money for retirement (Source: Northwestern Mutual, 2019).

The average amount of savings that Americans have put aside for retirement is $84,821 (Source: Northwestern Mutual, 2019).

About 28% of retirees say that life is worse in retirement than it was when they were working (Source: Nationwide Retirement Institute, 2019).

Of the retirees who were generally happy, 97% said they were happy because they had a strong sense of purpose (Source: Transamerica, 2019).

About 61% of millennial respondents said they are taking a different approach to finances to avoid making the same mistakes as their parents, while 38% are consciously limiting their spending to avoid making the same mistakes as their parents (Source: TIIA, 2019).

In 2009, 12.3% of the workforce was in a union, compared to 10.5% today (Source: Wealthmanagement.com, July/August 2019) . ❍❍❍