Life Income Management™

Creating income for life.

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FINANCIAL OUTLOOK

FEBRUARY 2023

PUMP UP YOUR RETIREMENT SAVINGS

Don't give up on your retirement goals if you find you've entered middle age with little to no retirement savings. Sure, it may be harder to reach your retirement goals than if you had started in your 20s or 30s, but here are some strategies to consider:

- **REANALYZE YOUR RETIREMENT GOALS.** First, thoroughly analyze your situation. Calculate how much you need for retirement, what income sources will be available, how much you have saved, and how much you need to save annually to reach you goals. If you can't save that amount, it may be time to change your goals. Consider postponing retirement for a few years so you have more time to accumulate savings as well as delay withdrawals from those savings. Think about working after you retire on at least a part-time basis. Look at lowering your expectations.
- **CONTRIBUTE THE MAXIMUM TO YOUR 401(K) PLAN.** Your contributions, up to a maximum of $22,500 in 2023, are deducted from your current year gross income. If you are age 50 or older, your plan may allow an additional $7,000 catch-up contribution. Find out if your employer offers a Roth 401(k) option. Even though you won't get a current year tax deduction for your contributions, qualified withdrawals can be taken free of income taxes. If your employer matches contributions, you are essentially losing money when you don't contribute enough to receive the maximum match.
- **LOOK INTO INDIVIDUAL RETIREMENT ACCOUNTS (IRAS).** In 2023, you can contribute a maximum of $6,500 to an IRA, plus an additional $1,000 catch-up contribution if you are age 50 or older. Even if you participate in a company-sponsored retirement plan, you can make contributions to an IRA, provided your adjusted gross income does not exceed certain limits.
- **REDUCE YOUR PRERETIREMENT EXPENSES.** Typically, you'll want a retirement lifestyle similar to your lifestyle before retirement. Become a big saver now and you

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REEVALUATE YOUR PORTFOLIO

Periodically, you should thoroughly review your portfolio to ensure it is still helping you work toward your investment goals. Follow these steps:

REVIEW YOUR CURRENT PORTFOLIO MIX. List the current value of all your investments. Determine what percentage of your portfolio is held in stocks, bonds, cash, and other investments, but don't stop there. Take a closer look at where the stock portion of your portfolio is invested. Break out your stock investments by market capitalization (small-, mid-, and large-cap), by style (growth and value), by area (domestic and international), and by sector (technology, financial, utilities, energy, etc.).

ANALYZE EACH INVESTMENT. Determine whether it still makes sense to own each investment. Don't let emotions get in the way. Review why you purchased each investment and whether those reasons are still valid. Emotionally, it is difficult to sell an investment at a loss, but holding on until you get back to break-even may not be the best

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Pump Up

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enjoy two advantages. First, you save significant sums for your retirement. Second, you're living on much less than you're earning, so you'll need less for retirement.

- **Move to a smaller home.** As part of your efforts to reduce your preretirement lifestyle, consider selling your home and moving to a smaller one, especially if you have significant equity in your home. If you've lived in your home for at least two of the previous five years, you can exclude $250,000 of gain if you are a single taxpayer and $500,000 of gain if you are married filing jointly. At a minimum, this strategy will reduce your living expenses so you can save more. If you have significant equity in your home, you may be able to use some of the proceeds for savings.
- **Substantially increase your savings as you approach retirement.** Typically, your last years of employment are your peak earning years. Instead of increasing your lifestyle as your pay increases, save all pay raises. Anytime you pay off a major bill, such as an auto loan or your child's college tuition, take the money that was going toward that bill and put it in your retirement savings.
- **Restructure your debt.** Check whether refinancing will reduce your monthly mortgage payment. Find less costly options for consumer debts, including credit cards with high interest rates. Systematically pay down your debts. And most important — don't incur any new debt. If you can't pay cash for something, don't buy it.
- **Stay committed to your goals.** At this age, it's imperative to maintain your commitment to saving. Please call if you'd like help reviewing your retirement savings program. ❍❍❍

How to Get a Handle on Spending

Most people wish they have more money saved away, no matter what their ultimate financial goals. 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.** Don't just guess at numbers — look at your bank statements and bills over the last month and see how much you really spend on dining out, groceries, entertainment, and clothing. Look for ways to reduce that spending.
- **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 for better rates. Consider strategies to reduce your income tax and research whether or not it makes sense to refinance your home to lower your mortgage payments.
- **Create a written spending plan.** Budget for what you need on a monthly basis, abstaining from off-budget items.
- **Stop using your credit cards (at least for a while).** The ease of swiping a plastic card to make a purchase removes some of the psychological restraint we show when we have to count out actual dollar bills. 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 and compared prices online to see if it really is a good deal.
- **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 the 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 instead of getting a new one every other year.
- **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 incurred with home ownership. Living well within your means also means more money left over for savings and to cover unexpected expenses.

We've all made poor money decisions at some point in our lives. But that doesn't mean we're doomed to repeat them. 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. ❍❍❍

Reevaluate

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strategy. It may never return to that price or may take an excessively long time to do so. You may want to sell the investment and reinvest in another with better prospects. Instead of worrying about what you paid for the investment, decide whether you would buy it today at its current price.

Determine if changes are needed to your current allocation. If we've learned anything over the past few years, it's that your portfolio should not be highly concentrated in one area or sector. Instead, look to broadly diversify your portfolio. Some points to consider include:

- **Decide how much to allocate to stocks and bonds.** Your stock and bond mix is a major factor in determining your expected portfolio return and how much your portfolio will fluctuate with market movements. However, be careful not to let recent events cause you to allocate too much to bonds just to avoid stock market fluctuations. Make this decision based on your financial goals, risk tolerance, and time horizon for investing. If you are investing for the long term — say, 10 years or more — you probably still want a major portion of your investments allocated to stocks.
- **Reassess your stock allocation.** Is your stock portfolio too heavily weighted in technology stocks or blue chip stocks? Have you selected only growth stocks, ignoring value stocks? Do you prefer large-cap stocks, ignoring smaller stocks? The stock market moves in cycles, with different sectors outperforming other sectors at different times. Since no one can predict when one sector will outperform, it is typically best to broadly diversify your stocks over all areas.

Move your allocation closer to your desired allocation. When making changes, first consider the tax ramifications of the transactions. If you can make changes without incurring tax liabilities, you may want to make the changes immediately. If substantial tax liabilities will be incurred, look for other ways to get your portfolio closer to your desired allocation. For instance, any new investments should be made in underweighted areas of your portfolio. Or you may be able to reallocate in your tax-deferred accounts, such as individual retirement accounts and 401(k) plans, where you typically won't incur tax liabilities. However, if you can't get your allocation in line within a year using these approaches, you might want to sell some of the poor performers and reinvest the proceeds.

If you'd like help reevaluating your portfolio, please call. ❍❍❍

Growing Your 401(k) Plan

Your 401(k) plan's ultimate size is primarily a function of two factors — how much you contribute and how much you earn on those contributions. Of course, you know you should contribute the maximum amount possible ($22,500 in 2023 plus a $7,000 catch-up contribution for individuals over age 50, if permitted by the plan). But what steps should you take to maximize your returns? Consider these tips:

- **Take advantage of employer matching contributions.** Contribute at least enough to take full advantage of any matching contributions. You simply lose the money if you don't use it. If you plan to contribute the maximum and your employer matches contributions, have the $22,500 taken out of your pay uniformly throughout the year. Most employers match your contributions as they are made, so you could forgo some matching if you reach the limit before year-end.
- **Select your investment alternatives carefully.** Since you are responsible for investment decisions, understand all alternatives. Keep in mind the long-term nature of your retirement goal and select investments for that time period.
- **Rebalance periodically.** By rebalancing, you are following a fundamental investment principle — you are buying low (those investments that are underperforming) and selling high (those investments that are performing well). You need to make rebalancing a habit so your portfolio doesn't become more risky than intended. Since your 401(k) plan is tax deferred, there are no tax ramifications to buying and selling within the account.
- **Limit the amount of company stock owned.** Not only is your job and livelihood tied to the company, but your retirement savings are also tied to the same company. It is generally recommended that any one stock not comprise more than 5% to 10% of your portfolio's value.
- **Don't borrow from your 401(k) plan.** When you borrow, some of your investments are sold. While your loan is outstanding, you miss out on any capital gains or other income those investments would have earned. Interest rates are typically very reasonable, but could mean your 401(k) account is earning lower returns than if it was invested in other alternatives. Also, if you leave the company while a loan is outstanding, you must repay the entire balance within a short period of time or the loan will be considered a distribution, subject to income taxes and the 10% early withdrawal penalty if you are under age 59½ (55 if you are retiring). ❍❍❍

FINANCIAL DATA

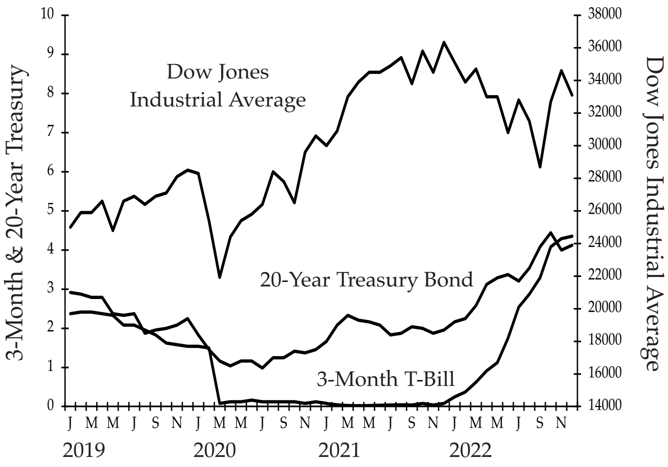
Indicator	Month-end Oct-22	Nov-22	Dec-22	Dec-21	Dec-20
Prime rate	6.25	7.00	7.50	3.25	3.25
Money market rate	0.24	0.31	0.33	0.07	0.20
3-month T-bill yield	4.07	4.29	4.35	0.08	0.10
10-year T-bond yield	4.10	3.68	3.88	1.52	0.93
20-year T-bond yield	4.44	4.00	4.14	1.94	1.45
Dow Jones Corp.	5.93	5.46	5.54	2.48	1.93
30-year fixed mortgage	7.16	6.84	6.80	2.63	1.91
GDP (adj. annual rate)#	-1.60	-0.60	+3.20	+6.90	+4.30

Indicator	Month-end Oct-22	Nov-22	Dec-22	% Change 2022	2021
Dow Jones Industrials	32732.95	34589.77	33147.25	-8.8%	18.7%
Standard & Poor's 500	3871.98	4080.11	3839.50	-19.4%	26.9%
Nasdaq Composite	10988.15	11468.00	10466.48	-33.2%	21.4%
Gold	1639.00	1753.50	1812.35	0.4%	-4.4%
Consumer price index@	296.81	298.01	297.71	7.1%	6.8%
Unemployment rate@	3.50	3.70	3.70	-11.9%	-37.3%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

JANUARY 2019 TO DECEMBER 2022



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

DON'T UNDERESTIMATE INFLATION IN RETIREMENT

The recent surge in inflation rates has impacted all of us. To combat the effects of inflation on your retirement income, consider these tips:

❍ **USE A CONSERVATIVE INFLATION RATE FOR PLANNING PURPOSES.** Since your retirement is likely to span decades, consider inflation over long time periods.

❍ **CONSIDER INVESTMENT ALTERNATIVES LIKELY TO STAY AHEAD OF INFLATION.** Thus, a significant portion of your portfolio will probably be invested in stocks.

❍ **INVEST IN TAX-ADVANTAGED INVESTMENT VEHICLES.** Look into 401(k) plans, individual retirement accounts, and other retirement vehicles. While each has different rules, all provide some tax-free or tax-deferred benefits.

❍ **KEEP FIXED EXPENSES AS LOW AS POSSIBLE.** Try to retire with as little debt as possible so you'll have more flexibility.

❍ **DECIDE HOW YOU WILL DEAL WITH HEALTHCARE COSTS.** While Medicare will help once you turn age 65, it does not cover many healthcare costs. Look into Medigap policies and other coverage to help with non-covered expenditures.

❍ **MINIMIZE WITHDRAWALS FROM YOUR RETIREMENT ASSETS, ESPECIALLY DURING THE EARLY YEARS OF RETIREMENT.** To counter inflation, you need to withdraw larger and larger sums just to maintain the same purchasing power. To ensure you don't run out of funds late in life, make minimal withdrawals during the early years.

❍ **BE PREPARED FOR CHANGE.** After retirement, keep a close eye on your investments. If inflation increases, you may want to look for ways to reduce your living expenses or go back to work at least part-time. ❍❍❍