Life Income Management™

Creating income for life.

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Financial Outlook

OCTOBER 2021

Saving Strategies Based on Personal Goals

To effectively save money, you need to develop a financial plan based on what you want to achieve in your lifetime. The foundation of your financial plan is the personal goals you establish.

You will want to develop short-, intermediate-, and long-term goals. Each goal should also have a defined dollar amount and specified time frame for when you want to meet it.

Deciding on Your Goals

When establishing goals, you need to think long and hard about what you want to achieve and then determine how long you think it will take you to reach each goal. Examples of goals would include:

- Short-term goals could include saving for an emergency fund, a car down payment, small home improvements, buying furniture, or a vacation.
- Intermediate-term goals would include saving for a home or starting a business.
- Long-term goals typically include saving for a child's education, a vacation home, and retirement.

Once you've established your goals, you will then want to identify a dollar amount that you need to complete each goal. An annual vacation may be a $5,000 goal, while retirement may be more like a $1,000,000 goal.

What's Most Important

Now that you have your goals, their dollar amounts, and time frames, the next step is to decide the importance of each goal so you can structure your savings plan according to your priorities. For example, if your first priority is saving for retirement, you will want to put money away for this before anything else by having a percentage of your paycheck earmarked for a 401(k) plan, IRA, or Roth IRA. Only after this money comes out of your paycheck can you earmark other funds to meet other goals, such as saving for a new car or house.

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Watch Out for Retirement Derailers

To make sure your retirement isn't derailed, consider these tips:

1. Start saving now. Because of the power of compounding, starting to save for retirement just a few years earlier can make a huge difference.

For example, a 30-year-old puts $400 per month into a tax-deferred retirement plan (like a 401(k) plan), which generates $1,015 per month in retirement income for 30 years beginning at age 65. For the 35 years that the individual is saving (from age 30 to 65), she will have contributed $168,000 to the account. A 45-year-old makes the same amount in total contributions ($168,000 at a rate of $700 per month) to the same retirement account. Even though she has contributed the same dollar amount, because her savings compounded for 15 fewer years, she has about 20% less during retirement (Source: Ameriprise Retirement Calculator).

2. Save now to spend later. This is where it's critical to make a budget for current expenditures, a retirement budget, and a plan for how to make retirement work. That plan may involve trimming current expenditures, scaling back retirement expectations, or both.

3. Prepare a retirement plan. Unless you plan to work until the day you die, a retirement plan should be an integral part of your overall financial plan. Think

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Saving Strategies

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Get Your Financial House in Order

Two of the most important short-term goals on your list should include creating a budget and specific line items in your budget for savings. Create your budget by identifying all of your monthly expenses and organize them on a spreadsheet or in an online budget tool. In addition to your monthly bills, you should also identify all your other expenses, such as dining out, movies, daily coffee, clothing, prescriptions — basically everything that you spend should be recorded on the budget. You will then be able to see how your expenses compare to your income.

Most financial experts say that your savings line items should be between 10% to 25% of your income and should include specific line items for both short- and long-term goals. If you find saving that much is not doable, you will need to take a long, hard look at your entire financial situation to identify non-essential expenses and ways to improve your savings.

A good first step is to identify the wants versus needs of your budget. What expenses can you reduce? What expenses can you eliminate all together? Think about all of those other expenses on your budget, such as meals out, morning coffee, and those expensive shoes. Also, look at your essential expenses to see what can be reduced. Do you really need a landline phone? Can you reduce the data package on your cell phone? Is there another cable package or provider that could save you money?

You should also consider using cash or your debit card instead of a credit card, which will remove the temptation of overspending.

The next step is to look at all of your debt, including credit cards, student loans, car loans, mortgages, etc. You may want to make one of your short-term goals to eliminate or reduce the balances on your credit cards, since they carry higher interest rates if you are not paying them off on a monthly basis. Other debt, such as a mortgage or a student loan, has lower interest rates and can be paid down while you are saving and investing. All of the expenses you reduce or eliminate can now be put toward the savings portion of your budget.

Make It Automated

Almost all financial institutions offer automated transfers between your checking and savings accounts so you can set-up how much you want to transfer on a monthly basis. You can also set-up an automated savings deposit through your employer so the money is automatically deducted from you paycheck into your savings. Either way, the automation makes it easy and helps reduce the temptation to overspend.

Please call if you'd like to discuss savings strategies in more detail. ❍❍❍

Your Bond Allocation

Your asset allocation mix represents your personal decisions about how much of your portfolio to allocate to various investment categories, such as stocks, bonds, and cash. How much you allocate to each category depends on your financial objectives and personal circumstances. However, it is a percentage that is likely to change over time. 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.** The advantage of including both stocks and bonds in your portfolio is that when one category is declining, the other category will hopefully help offset this decline. 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. Certainly, individuals with short time horizons, perhaps five years or less, should be very cautious about how much is allocated to stocks. But as your time horizon lengthens, you can theoretically add a higher stock mix to your asset allocation. 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 you are trying to accumulate significant assets for a goal far in the future, you may want to allocate more of your mix to stocks. However, when your needs for a predictable income stream become more important, such as when retirement approaches, you may want to allocate more to bonds.

If you'd like help assessing how much to allocate to bonds and how to diversify that allocation, please call. ❍❍❍

Watch Out

Continued from page 1

seriously about things you might want to spend money on before or during retirement and then build that into your plan.

4. Review the implications of taking Social Security benefits before reaching full retirement age. It's important to understand that while the government will let you start taking benefits at age 62, it will penalize you for it: for an individual born in 1960 or later who retires at age 62 instead of age 67 (full retirement age), his/her monthly benefits will be reduced by 30%.

5. Have a candid conversation with your parents or other family members whom you might be caring for in old age. Talk about how they'll want to be cared for and the means they have to pay for such care. Urge them to consider long-term-care insurance.

If you have already been impacted by a retirement derailer — or any other circumstance that has impacted your retirement plans — here are five ways you can get back on track:

1. Take advantage of catch-up provisions. If you are 50 or older, you can contribute more tax-deferred income to a 401(k) or IRA (these are so-called "catch-up contributions"). In 2021, you can contribute $6,500 more to a 401(k) or 403(b) plan and $1,000 more to an IRA.

2. See where you can trim expenses to save more. Boosting your savings to get back on track for retirement might be easier than you think: most of us spend more than we realize on discretionary categories like meals out, clothing, travel, and other personal expenditures. Take a hard look at your budget and see where you can cut back.

3. Evaluate your investment choices. Review your current asset allocation. Many individuals close to retirement pull money out of the stock market, missing out on significant investment opportunities. That said, you want to ensure that your asset allocation is appropriate given your age and target retirement date.

4. Reevaluate your retirement lifestyle. Most financial advisors recommend that you be able to replace at least 70% of your preretirement income during retirement. So if you planned to spend 85% of your current income in retirement, you might be able to scale back and still retire comfortably.

5. Work longer. When Social Security was created in 1935, the average American 65-year-old man could expect to live to age 78 and the average American woman to 80. Today, the average American 65-year-old man can expect to live to 84.3 and the average American 65-year-old woman to 86.6 (Source: Social Security Administration, 2020). In that context, working five more years might not be such a sacrifice — and it can make a big difference in the retirement lifestyle that you can afford. For a 60-year-old who has a retirement account balance of $250,000 today and contributes $2,000 a year, pushing retirement back from age 65 to age 70 would yield an additional $158,410 in total savings — adding $300 per month to the individual's retirement income.

Please call to discuss this in more detail. ❍❍❍

5 Reasons to Start Saving

Saving money is a bit like exercising. We all know how important both are, but it can be hard to actually get into the habit of doing either. Here are five reasons to help keep you motivated.

1. You'll Be Prepared for Emergencies — Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small unexpected expenses. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises.

2. You'll Be More Independent — Having savings gives you more flexibility and independence. With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Committing to savings today, even if it's just a small amount, will start to give you the freedom to make different choices in your life.

3. You'll Be Able to Reach Your Goals — We all have goals. Whatever your dreams, they likely have one thing in common — you're probably going to need some money if you want them to become a reality. Few of those dreams are achievable if you don't save for them.

4. You'll Be Able to Earn More Money — Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving, rather than spending. And because of the power of compounding earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

5. You'll Be Happier — No one wants to suggest money is the only thing that can make us happy. But there's also evidence that *saving* money, even in small amounts, can make you happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to more unhappiness.

Convinced that saving for the future is the right thing to do? Please call to discuss how you can make regular saving part of your financial plan. ❍❍❍

Financial Data

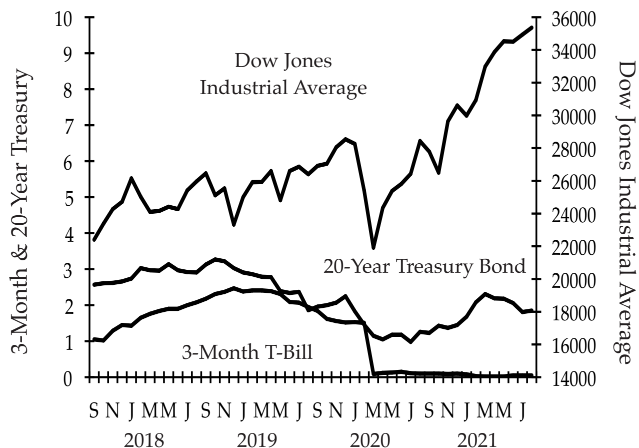
Indicator	Jun-21	Jul-21	Aug-21	Dec-20	Aug-20
	Month-end				
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.08	0.08	0.08	0.20	0.23
3-month T-bill yield	0.05	0.05	0.05	0.10	0.10
20-year T-bond yield	2.06	1.81	1.85	1.45	1.26
Dow Jones Corp.	2.29	2.14	2.25	1.93	2.22
30-year fixed mortgage	2.44	2.25	2.39	1.91	1.90
GDP (adj. annual rate)#	+4.30	+6.30	+6.60	+4.30	-31.20

Indicator	Jun-21	Jul-21	Aug-21	YTD	12 Mon.
	Month-end			% Change	
Dow Jones Industrials	34502.51	34935.47	35360.73	15.5%	24.4%
Standard & Poor's 500	4297.50	4395.26	4522.68	20.4%	29.2%
Nasdaq Composite	14503.95	14672.68	15259.24	18.4%	29.6%
Gold	1763.15	1825.75	1814.85	-3.9%	-7.9%
Consumer price index@	269.20	271.70	273.00	4.9%	5.4%
Unemployment rate@	5.80	5.90	5.40	-19.4%	-47.1%

— 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

September 2017 to August 2021



Past performance is not a guarantee of future results.

News and Announcements

Time: Friend or Foe?

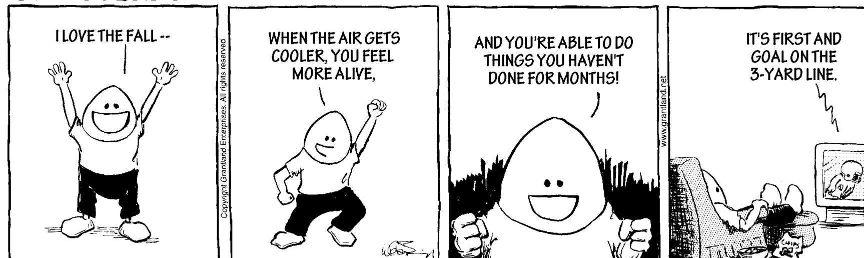
The sooner you start saving, the less you have to put away each month to accumulate the needed funds for retirement. For example, say as a 25-year-old you open an IRA and save $100 a month ($1,200 per year). The IRA earns an average of 6% a year. After 40 years — when you're 65 and ready to retire — your account balance could grow to over $185,000.

But let's say that, instead, you put off saving until you were 45. At the same rate of saving in an IRA with the same returns, by the time you're 65, your IRA balance would be just about $44,000. Starting when you're 45, you'd have to contribute $420 a month to save about $185,000. At least that would be less painful than if you waited until you were 55. Then, to match the end result, you'd have to save $1,175 per month. *(These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

One way that people often try to compensate for getting a late start in saving is to shoot for a higher rate of return. Instead of settling for the 6% a year we used in the example above, why not go for 10%? But there are two problems with that strategy. The first is that stocks don't always provide consistent returns.

Second, to earn higher rates of return, you have to take on more risk. Whenever you absorb a big one-year loss, it takes a higher-than-normal rate of return in following years to break even.

Everyone knows that time is money. Not everyone realizes that time spent not saving can have a significant cost, and that there are only so many ways to make up for it. It's never too late to increase how much you save, but if you feel like you're not where you should be on the road to retirement, the sooner you start putting more money aside the better. Please call if you'd like to discuss this in more detail. ❍❍❍



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Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.
The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 actively traded "blue chip" stocks, primarily industrials, but includes financials and other service-oriented companies. The components, which change from time to time, represent between 15% and 20% of the market value of NYSE stocks.
The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.
The Nasdaq Composite Index is a market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks. The index includes all Nasdaq listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debentures.
The Consumer Price Index (CPI) is a measure of inflation compiled by the US Bureau of Labor Studies