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MOLDENHAUER & ASSOCIATES

MAYNEWSLETTER

Editor: Richard C. Moldenhauer, CLU, CEP, RFC *Chartered Financial Consultant*

Lately, I've been having a lot of conversations about making the most of retired life—how to stay active to keep both body and mind sharp. Retirement is a huge milestone, but it's not just about stepping away from work; it's about stepping into a new phase of life with energy and purpose.

Move Your Body, Move Your Life

Staying physically active is one of the best ways to maintain health as you age. But here's the thing—exercise doesn't have to be a chore. It's about finding movement that brings joy.

- Take a walk – Whether solo or with a group, a daily walk keeps you moving, clears the mind, and, let's be honest, might include a little friendly gossip.
- Try a new sport – Swimming, golf, pickleball—something that gets you excited to move. Bonus points if it comes with a post-game coffee or lunch.
- Enjoy the outdoors – Fresh air and sunshine work wonders for your mood. Gardening, hiking, or just sitting outside with a book—it all counts.
- Stay active at home – Dancing in the kitchen, stretching while watching TV, playing with grandkids—it's all movement.

Keep Your Mind Just as Active

Retirement doesn't mean your brain retires, too. The best way to keep your mind sharp? Stay curious.

- Learn something new – Always wanted to paint, play an instrument, or pick up a new language? Now's the time.
- Volunteer – Giving back keeps you engaged while making a difference in your community.
- Stay social – It's easy to feel isolated after leaving the workplace, but staying connected makes all the difference. Regular meetups, club memberships, or even just checking in with friends help keep relationships strong.
- Travel and explore – It doesn't have to be far—sometimes exploring your own neighborhood in a new way brings fresh perspective.

The Secret? Don't Let the Old Man In

There's a reason Clint Eastwood inspired Toby Keith's song "Don't Let the Old Man In". It's because aging is as much a mindset as it is a number. Staying young isn't about avoiding birthdays—it's about how you approach life.

So, keep moving. Keep learning. Keep laughing. Start each day with something to look forward to. Retirement isn't about winding down; it's about living fully.

So, tell me—what's something you've always wanted to try?

Brett Moldenhauer

Brett Moldenhauer

THE BUCKET STRATEGY

A better way to manage retirement income?

When it comes to creating a stream of income in retirement, there are two predominant schools of thought: the systematic withdrawal strategy and the bucket strategy.

With the systematic withdrawal strategy, your assets are invested in a single, diversified portfolio aligned with your risk tolerance. During your working years, the goal is to maximize the return on your investment. Then, during retirement, you withdraw assets from the portfolio at a rate appropriate for your circumstances; a common withdrawal rate is 4 percent. There's an inherent problem with this approach, however: you may be forced to sell in a falling market, liquidating a greater number of investment shares to meet your income needs and leaving fewer assets behind to recover.

The bucket strategy, which has become more popular in recent years, can avoid some of this downside. With this strategy, you still maintain a single, diversified portfolio during your working years. Then, approximately one to three years before retirement, you divide your assets among several portfolios, or buckets, each with different time horizons, asset allocations, objectives, and risks. With assets spread across these diverse buckets, you can more effectively manage the major risks to retirement income:

• Longevity risk, or the risk of outliving your savings
• Inflation risk, or the risk that your expenses will outgrow your savings
• Market risk, or the risk that you will experience a down market during retirement

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How It Works

To implement the bucket strategy, we first work with you to estimate your income needs throughout retirement, as well as the year or two before you retire. Once we know the approximate cash inflows and outflows you need to support your lifestyle during each retirement year, we can set up buckets and invest them to deliver on your income needs.

Typically, the bucket strategy is set up using three buckets, which, as previously mentioned, are invested based on different time horizons, objectives, asset allocations, and risks.

Bucket 1. This bucket covers more short-term needs, providing immediate income and cash for essential expenses as well as emergencies. Because it is invested in more liquid assets, such as short-term bond funds, cash, money market funds, and CDs, it helps to alleviate timing risk as well.

Bucket 2. This is an intermediate-term bucket, so it's invested in riskier holdings because there is more time to wait out market swings. Appropriate vehicles include bond funds, laddered bond annuities. The annuities can serve as a source of guaranteed income, while the bond funds and bond portfolios can offer some appreciation potential.

Bucket 3. This bucket represents the long-term growth allocation piece of the retirement income plan. The goal is to help alleviate timing risk, inflation risk, and liquidity risk, as well as to further your estate planning objectives. Because it has a long time horizon, this bucket is invested in more aggressive assets that seek some degree of capital appreciation—for example, equities, real estate, alternative investments, and individual bonds and bond funds.

Once the buckets are established, they can be managed in a couple of ways. One way involves using up the money in each bucket in order: you would withdraw income and principal from the first bucket in the years assigned to it; then, you'd move on to the second bucket and do the same thing and then on to the third.

Another way to manage this strategy is to continually refill the first bucket with money from the other two, so it exists during your entire retirement period. For example:

- Periodically, we would sell down the investments in Bucket 3 that have appreciated. Then, we would take the proceeds and either invest in the securities in Bucket 2 or move the cash directly to Bucket 1.

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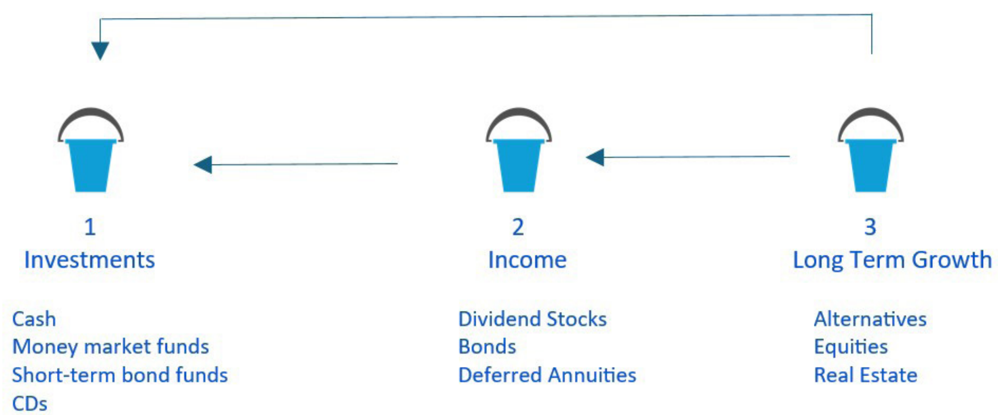

- Instead of reinvesting the dividends, interest, and capital gains from Bucket 2 and Bucket 3, we would have them flow directly into Bucket 1.

With money flowing into and out of Bucket 1, you may feel more comfortable about your financial security—both present and future.

Despite the many benefits of a bucket strategy, there are potential drawbacks. This strategy may be too conservative for some investors based on their risk tolerance and it requires ongoing rebalancing due to market activity. The right solution depends on your preferences and needs.

A Better Way?

Is the bucket strategy a better way to manage retirement income? It may be. A bucket strategy provides a simple and flexible way to implement a plan that you can stick to. However, one size rarely fits all and the same is true here. The right retirement income strategy for you depends on your risk tolerance, lifestyle preferences, and spending habits so work with your advisor to determine the best approach based on your needs and preferences.

As you approach your retirement years, understanding how to continue to live your desired lifestyle after you stop working will become increasingly important. By linking asset buckets to specific time horizons and income goals, and investing them in the appropriate vehicles, we can show you a different way to manage your retirement income.

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DEBT MANAGEMENT IN A HEALTHY FINANCIAL PLAN

Wise debt management is a key component of healthy and effective financial planning. Today, most people carry some amount of debt to finance a degree or buy a home or car. Other debts may be incurred out of necessity or as part of an investment plan. Whatever your reasons for taking on debt, you should understand the different types of debt and their risks. This knowledge will help you manage debt wisely as part of your overall financial plan.

Primary Types of Debt

The two primary types of debt are:

- **Unsecured debt.** Credit card balances and student loans are common types of unsecured debt. Typically missing one or more of your monthly payments on unsecured debt could result in late fees, increased interest rates, damage to your credit score, and/or action by a collection agency. A delinquent borrower can also be sued by the lender.

- **Secured debt.** With secured debt, the lender has an interest in an asset, such as a home mortgage or car loan. In the event of default, the lender has a legal right to repossess its interest in the asset.

Risks to Consider

The distinction between unsecured and secured liabilities should not lead to conclusions about when debt is appropriate. Credit card balances and car loans, for example, are rarely part of a healthy financial plan, in part because assets acquired this way are subject to rapid depreciation. Furthermore, because unsecured debt is convenient, it can get out of control quickly. So, avoiding credit card debt and car loans is advisable unless you have a strict budget and the discipline to stick to it.

Other types of debt, such as mortgages and business loans, could increase your long-term net worth, provided the asset value increases or remains more valuable than the loan balance. In these cases, you have less risk of the debt getting out of control because secured loans can be fully satisfied by disposing of the secured asset. But the obvious downside is you could lose your home, car, or other valued asset. As a result, even if secured debt has lower interest rates and more favorable terms, you should carefully weigh the potential downsides before taking it on.

How Much Debt Can You Afford?

With any type of loan, lenders decide what level of risk they will accept when making a lending decision. Factors they consider include credit history and the prospective borrower's debt-to-income ratio. But the lender's main concern is answering the question, "What is the maximum amount we can offer this borrower with the least likelihood they will default on the loan?"

It's important to realize that a lender's willingness to loan funds does not mean accepting the loan is prudent. When analyzing your ability to carry debt, consider your budget carefully and focus on the following:

Liquidity. If you suddenly lost your job, would you have enough cash to cover your current liabilities? It's a good idea to maintain an emergency fund to cover three to six months of expenses. But don't go overboard. Guard against keeping more than 120 percent of your six-month expense estimate in low-yielding investments. And don't let more than 5 percent of your cash reserves sit in a noninterest-bearing checking account.

Current debt. Your total contractual monthly debt payments (i.e., minimum required payments) should come to no more than 36 percent of your monthly gross income. Your consumer debt—credit card balances, automobile loans and leases, and debt related to other lifestyle purchases—should amount to less than 10 percent of your monthly gross income. If your consumer debt ratio is 20 percent or more, avoid taking on additional debt.

Housing expenses. Generally, your monthly housing costs—including your mortgage or rent, home insurance, real estate taxes, association fees, and other required expenses—shouldn't amount to more than 31 percent of your monthly gross income. If you're shopping for a mortgage, keep in mind that lenders use their own formulas to calculate how much you can afford. These formulas may not work for your situation. For a mortgage insured by the Federal Housing Administration, your housing expenses and long-term debt should not exceed 43 percent of your monthly gross income.

Savings. Although the standard recommended savings rate is 10 percent of gross income, your guideline should depend on your age, goals, and stage of life. You should save more as you age, for example, and as retirement nears, you may need to ramp up your savings to 20–30 percent of your income. Direct deposits, automatic contributions to retirement accounts, and electronic transfers from checking accounts to savings accounts can help you make saving a habit.

Debt Pay-Down Strategies

If you're carrying debt that exceeds what's normal for the average household, we can discuss strategies to pay it down as aggressively as is reasonable. Here are two approaches to consider:

- **Snowball debt elimination.** This involves identifying lowest-balance debts and targeting them for priority repayment while making only the minimum payment on other items of debt. Once the lowest balance is paid off, move on to paying down a new set of lowest-balance debts.

- **Debt avalanche.** This strategy advocates paying off debts with the highest interest rate first. This makes mathematical sense but requires discipline and the ability to stick with the process.

Debt and Your Investment Plan

In some cases, you may believe that holding debt, such as a mortgage or margin investments, is beneficial. This idea is usually based on the potential for your investments to outperform the interest rate on the applicable loan and the investment opportunities you could explore with that extra liquidity.

For instance, you might believe that paying off a mortgage or margin loan could represent a tax-free return on investment essentially equal to the interest rate paid on the debt. But you would enjoy a significant net benefit only if the rate of return substantially exceeds the cost of the interest. And that result cannot be guaranteed. So, though this strategy could potentially yield a monetary benefit, the overall risk involved is significant.

Need Additional Information?

We'll talk through these strategies for managing debt and explore other planning solutions that can help you stay or get on track to financial security. By carefully approaching debt with a detailed plan on how much to borrow and how to repay your debt, you can reach your goals and support your long-term financial success.

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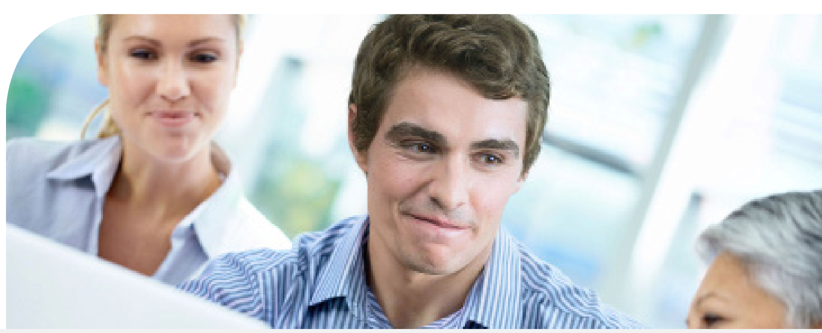

UPCOMING EVENTS:

Our June seminars are at:

Ilio DiPaolo's Restaurant
Wednesday, June 11, 2025 at 6 p.m.
3785 South Park Avenue
Blasdell, NY 14219

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