

# MOLDENHAUER & ASSOCIATES

## FEBRUARY NEWSLETTER

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With January behind us, we are venturing into what we expect will be a somewhat better year. While there still may be what the politicians refer to as a mild recession, I suspect, for most of us, we are already there.

The expectation of increased consumer costs and companies laying off more employees tells us that the bottom of the down economic cycle may be near. As I look around, I see a population that has largely adjusted to higher costs and, perhaps, higher taxes.

I like to think of myself as an honest environmentalist. We all likely want cleaner air and water for our children and grandchildren. Hopefully, our government can find a way to bridge our society from where we are to where we would like to be environmentally...without crippling the economy in the process.

We do expect a gradual improvement in the financial world. Typically, the "Market" is the first to recognize a downturn, as well as, the first to notice an improving economy. It seems we have seen some of this take place through January.

At Moldenhauer & Associates, we think we are reading the tea leaves properly. We are continuing to invest in client service systems. In addition, we are beginning to normalize our seminar system. With the pandemic over, as per government pronouncement, we are cautiously restoring our marketing information programs. We are back in our full rhythm of doing our educational seminars and they are being well received. We realize that some are still very concerned about COVID. We are doing our best to provide a great experience in a safe environment. Our presentation has been updated to be relevant

to the challenges and concerns people are facing in these difficult economic times. We hope our clients and people interested in a quality financial planning relationship will consider attending one of our enhanced educational presentations.

As a long time Bills fan, I, like many of you, were hoping things would end differently for our team this year. As my wife, and most of my Charleston family watched, the enthusiasm in the room gradually disappeared. I do think we have a quality core of a team. As we always say about our football team in WNY, "there's always next year". Let's keep that optimism and be optimistic about the future of this country. We have the opportunity (and responsibility) to do everything in our power to make it a better country (and world) for our kids and grandkids!

I hope the harsh weather and snow is largely behind us for the season. Please remember that if you are visiting the office, despite the fact the parking lot is plowed and salted each time we have significant snow fall, our staff will gladly help you to and from your vehicle. Let Karen know you're in the lot and one of the staff will help you stay safe.

*Richard Moldenhauer*

Richard Moldenhauer

# 10 COMMON RETIREMENT MISTAKES

**In a sense, you have been planning for your retirement ever since you started working. Maybe you've been contributing to a 401(k) plan, or maybe you've been socking away money in an IRA, but without a doubt, you've been looking forward to your golden years. And we want you to enjoy those years without worrying about having to take out a reverse mortgage on your house.**

For many people, retirement is not the stress-free vacation from financial concerns that they had envisioned, and bad planning is often the culprit. Here is a list of 10 common mistakes that retirement-age individuals often make as they try to manage their own financial affairs. Careful planning will help you avoid these pitfalls so that you can relax, confident of your security in retirement.

## 1. Outliving your assets.

We live in an era of unprecedented progress. Medical and technological advances have improved the lives and longevities of Americans; a man who reaches age 65 can be expected to live until age 84, while a woman can expect to live until 87. As an increasing number of Americans celebrate their 90th and 100th birthdays, financial professionals must recognize the probability that a client's retirement may last just as long as their working days. How to ensure retirement income for 30 or 40 years after your last paycheck must be the focus of your wealth manager.

## 2. Favoring accumulation over distribution.

You may have spent years trying to grow your assets. Now it's time to draw on your accounts. And while this may appear to be a simple matter of selling a particular stock, there is something of an art to taking distributions. Determining which assets to liquidate and when to do so requires careful analysis of projected returns, income streams, and taxable consequences.

## 3. Ignoring the effects of inflation.

A couple may say, "All we need is \$60,000 per year for the next 20 years. It's simple." Unfortunately, this may not be the case. Assuming a 4 percent inflation rate for the next 10 years, the couple would need almost \$90,000 if they want to maintain their current lifestyle. If they lived for 20 years, they would need to draw more than \$130,000 after year 19, all because of inflation. What's worse, year-over-year increases in the price of prescription drugs and medical supplies have far outpaced the inflation rate, as measured by the Consumer Price Index, forcing retirees to dip into the income they had planned on saving or passing on to heirs. Prudent financial guidance requires that you factor in the "real" value of your asset growth and income needs.

## 4. Uncertainty about social security.

Many people believe that once they hit early retirement age, they should immediately begin receiving social security benefits. Other retirees have been advised to wait as long as possible before drawing distributions. While there is no right answer for everybody, there is a right answer for you. Depending on your health, life expectancy, retirement goals, and sources of income, you may want to receive social security benefits beginning at age 62 (your early retirement age), your full retirement age (between 66 and 67), or even age 70. Because there is no time at which it is mandatory to take benefits, determining just when you should begin receiving social security is a critical component of retirement planning.

## 5. Incorrectly titling your assets.

It is common for a client to own accounts that name an estate as the beneficiary, fail to list a contingent beneficiary, or indicate that they are jointly held. Nonetheless, the consequences can be quite severe. In some cases, you or your relatives may be dragged into a probate court, creditors may gain access to your wealth, your inheritance may fall into the hands of people other than those whom you intended, and you may incur significant tax consequences. Allow your advisor to conduct a thorough beneficiary review—it could save you money later.

## 6. Overlooking the effects of changes in tax law and issues of tax efficiency.

There are few areas as poorly understood by the general public as tax law. Partly, this is because there are so many laws regarding taxation, but it's also because the law is constantly changing. Since 2000, federal legislation has drastically modified marginal and capital gain rates, tax treatment of dividends, IRA distribution rules, and estate and gift tax rates. Failing to consider tax law changes could render an investment plan ineffective, while taking advantage of tax law could save you a substantial sum. It is also important to consider tax-efficient planning—not only for yourself but for your heirs, too. There are a variety of strategies that can ease the tax burden on your beneficiaries, and you may consider the possibilities of a charitable gift, an annuity, a charitable remainder trust, or a private foundation.

## 7. Mistaking diversification for asset allocation.

Some people believe that the key to investing lies in owning a variety of assets. They focus on the quantity of positions, claiming that by holding 10 stocks, they hold a "diversified" portfolio. This statement, while to some degree accurate, hardly protects them from the market's fluctuations. Why not? The reason can be found in the distinction between diversification and asset allocation. While diversification merely mandates distributing assets across a number of investment vehicles, asset allocation requires that the investments are spread across a variety of asset classes, some of which have low correlations to one another. By investing in a variety of asset classes and choosing investments that react differently to market conditions, you can better withstand market volatility and potentially capture the market's upswings over the long term.

## 8. Allowing yourself to be influenced by the media.

It is a known fact that the market always overreacts. Bullish news sends it soaring, and bearish news exacerbates bad times. More than any other factor, media commentary can escalate bubbles and trigger sell-offs. The long-term investor (with a time horizon of more than one year) knows that today's hot IPO according to news commentary has a good chance of losing value over the next five years. Intelligent investors cannot be influenced by the banter of talking heads. Markets experience cycles, and you cannot escape the ups and downs through hyperactive trading in response to the word on the street.

## 9. Underestimating the value a financial advisor can provide.

Do-it-yourself investors often believe that their retirement needs are met. Despite their confidence, many of these individuals are unprepared for the future and lack a clear financial plan. Unaware of the various insurance and investment products specifically designed for retirees, unfamiliar with tax laws and asset allocation theories, and unqualified to act as their own distribution specialist, these investors often find themselves in difficult situations. You might be a superstar at your job, but you are probably ill-equipped to formulate an effective retirement plan for you and your family. This is why it's so important to seek the guidance of a financial professional.

## 10. Not getting an annual financial checkup during retirement.

The world is constantly changing. Tax laws are modified, new products are introduced, and personal circumstances and goals can shift. As all of these things happen, it is necessary to monitor your investments, review your distribution plan, and discuss your life. Your portfolio may need to be rebalanced, and your risk tolerance may need to be reevaluated. For these reasons, we recommend that you meet with us regularly—at least annually—to help manage your money, so you can enjoy your retirement years.

*Presented by Brett A. Moldenhauer*

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# HOW TO CREATE A PERSONAL FINANCIAL STATEMENT

Similar to a company's financial statements, a personal financial statement can help you assess your financial health and assist you in budget planning. It can also give you an idea of the kinds of information that banks and other lenders use to determine your ability to repay loans. Curious to know where you stand? Here, we show you how to get a handle on your finances by creating a personal financial statement.

## Your Personal Financial Statement

A personal financial statement consists of two parts: a net worth statement and a cash flow statement.

### Net worth statement.

To create your net worth statement, start by listing all your assets at their fair market value, in order of how easily they can be converted into cash. It's helpful to group assets into three categories: cash or cash equivalents, invested assets (your investment portfolio), and use assets (your home, furniture, automobiles, and so on). Then, list your liabilities—what you owe—in order of their maturity date. Be sure that your list of liabilities agrees with the credit bureaus' reports. Now, subtract your liabilities from your assets to determine your net worth. For you to be considered solvent, your liabilities should represent no more than 90 percent of your assets.

### Cash flow statement.

The second part of your personal financial statement is your cash flow statement. It compares funds coming into your household, such as salary and investment income, with money going out, including savings and expenses. Tally these numbers for a certain period of time (a month is a good place to start), and then calculate the difference between your cash inflows and your cash outflows. A negative cash flow statement indicates that you can't cover your expenses for that period without dipping into your cash savings and investments.

## What Do Lenders Typically Look For?

While credit history is important, lenders look for sufficient stable income to support loan payments and sufficient collateral to back your promise to repay the loan. Liquid assets have the most weight, and lenders will typically adjust the estimated value of hard-to-sell assets on your net worth statement. Here's how different types of assets tend to fare in lenders' eyes:

- **Cash:** An emergency fund is an important part of any financial plan, and it can be particularly helpful when applying for a mortgage or other major loan. The typical target is enough liquid assets to replace three to six months of expenses.
- **Investments:** Typically, a lender will look for 15 percent of your portfolio to be invested in marketable securities. Note that a large percentage of margin account securities may raise a red flag in the mind of a loan officer.

- **Closely held businesses:** A lender may adjust the value of a business solely dependent on you. Lenders may also discount the value of minority shares because of their illiquidity. Restricted or control stock is considered unavailable as collateral and will be taken off your net worth statement.
- **Real estate:** A lender will adjust the value of real estate based on taxes and other costs if the property has to be liquidated.
- **Notes receivable:** As an asset, notes are only as valuable as the guarantor and may not be taken at their notational value.
- **Personal use property:** Automobiles, boats, furniture, and other personal possessions may have liquidation value but are easy to hide from creditors. Consequently, most lenders will reduce their value on your net worth statement.
- **Life insurance:** For estate purposes, life insurance is listed at its death benefit amount. For other purposes, it is listed at its cash surrender value. A large life insurance loan, while not subject to repayment during your life, indicates a possible liquidity problem.

Lenders will also look closely at your debt-to-income ratio to ensure that you aren't taking on a mortgage you can't afford. To calculate this ratio, divide your total recurring monthly debt costs by your monthly gross income. As a general rule, your debt-to-income ratio must be below 43 percent. Note that lenders will still make loans to borrowers with higher debt-to-income ratios, such as retirees, if other factors justify the risk, such as a high level of assets.

## Your Personal Financial Ratios

Together with your personal financial statement, financial ratios can help you analyze your ability to take on debt—or determine whether you have more debt than you can afford. Here are some of the more helpful calculations:

### Liquidity ratio.

One financial rule of thumb is to maintain an emergency fund comprising:

- **Three months of fixed expenses or**
- **Six months of fixed and variable expenses**

Keep in mind that it's possible to overfund an emergency fund. You should guard against keeping more than 120 percent of your six-month expense estimate in low-yielding investments. And it's usually recommended that you hold no more than 5 percent of your cash reserves in a non-interest-bearing checking account.

### Housing payment ratio.

Nondiscretionary housing expenses—such as a mortgage, insurance, real estate taxes, and association fees—should be equal to or less than 28 percent of your monthly gross income.

### Total payment ratio (debt ratio).

A common mortgage lender standard—and a healthy personal finance target—is to keep all monthly loan and minimum credit card payments plus housing costs at or under 36 percent of your monthly income. Lenders' target debt ratios change with credit availability. Their typical requirement can range from 26 percent to 41 percent, depending on the lending environment and whether the loan will be insured by the Federal Housing Administration.

### Consumer debt ratio.

Discretionary debt includes credit card and automobile debts or leases. Your total discretionary debt should be less than 10 percent of your monthly gross income. A ratio of 20 percent indicates that you should not take on additional debt.

### Savings ratio.

There is no standard recommended savings rate. Your savings rate should depend on your age, goals, and life stage. As you get closer to retirement, your savings rate should increase. Direct deposits or electronic transfers can help you make saving a habit, but don't burn a hole in your pocket. Saving to spend is a great alternative to taking on debt, but saving to invest can be just as exciting.

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## UPCOMING EVENTS:

Our upcoming seminars are at:

### Pane's Restaurant

Tuesday, February 28, 2023 at 6 p.m.  
984 Payne Avenue  
North Tonawanda, NY 14120

### The Delaware Pub & Grill

Thursday, March 2, 2023 at 6 p.m.  
3410 Delaware Avenue  
Kenmore, NY 14217

### The Roycroft Inn

Tuesday, March 21, 2023 at 6 p.m.  
40 S Grove Street  
East Aurora, NY 14052

### Orchard Park Country Club

Thursday, March 23, 2023 at 6 p.m.  
4777 S. Buffalo Street  
Orchard Park, NY 14127

We encourage clients who live in the area to consider attending with a friend or two. We find that the best way to introduce new potential clients to our firm is when an existing client brings a friend to one of our seminars. As you know, these are informational/educational events. We are not there to convince people that we are the only firm to consider working with. Rather, we do believe that our firm offers a quality opportunity for those people looking for a new advisor relationship. Please consider attending an upcoming seminar in your neighborhood with a friend. You may register for a seminar by calling 716-662-4361 or through our website at [www.moldenhauerassociates.com](http://www.moldenhauerassociates.com).

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