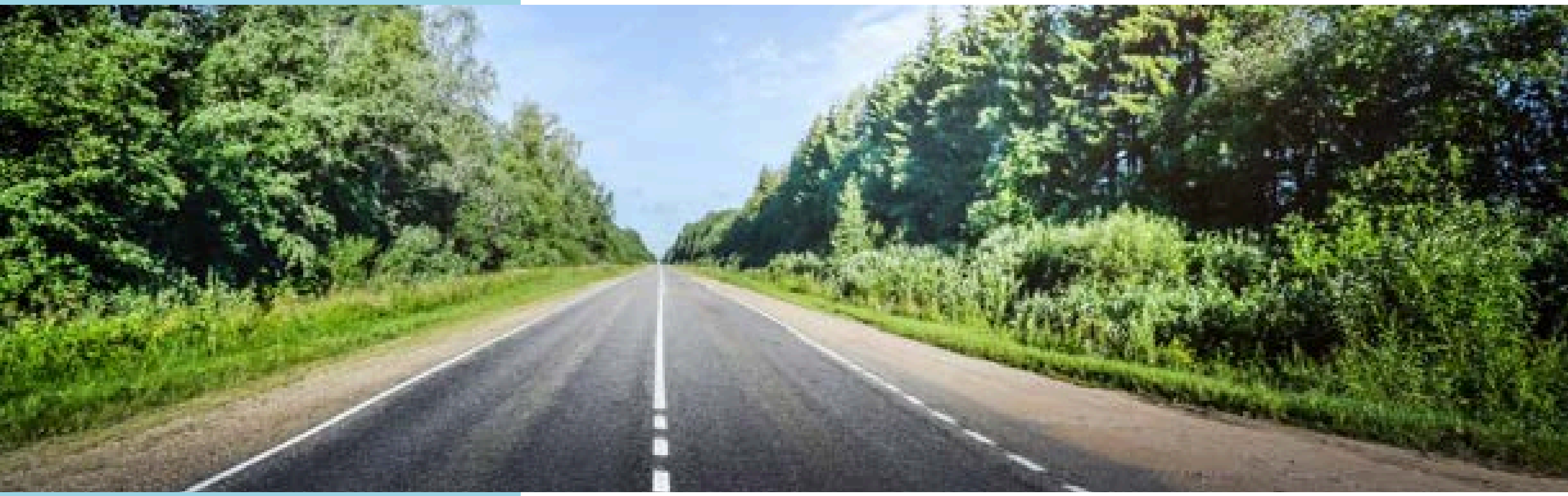
# JULY

**2024**

# THE ROAD TO RETIREMENT

OUR MONTHLY GUIDE TO EVERY MILEPOST, JUNCTION, AND LANDMARK ON YOUR ROAD TO RETIREMENT.



## THIS ISSUE



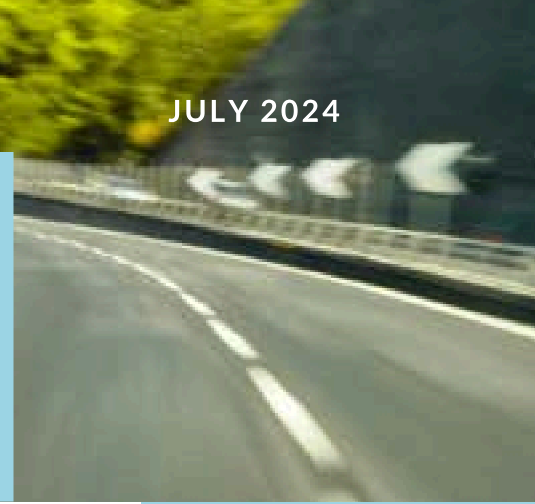
## WHAT'S ON OUR MINDS THIS MONTH

When you were a kid, did you ever dream of setting the high score on your favorite game at the local arcade? When you were a bit older, did you ever set a goal for yourself to get straight A's, make your high school team, or be class valedictorian?

What about as an adult? Was there a promotion you worked really hard to get? Or a skill you wanted to master, like getting your first hole-in-one or finally learning the notes to *Stairway to Heaven* on the guitar?

If you've ever achieved a long-term goal, you may also have experienced a common sensation that often follows: *Well, I've done it. Now what?*

As a financial professional, I've seen many people experience this after achieving the ultimate goal of retirement. So, over the next few issues of The Road to Retirement, we're going to explore the question of "Now what?" We'll look at the decisions and opportunities that ensure a smooth transition and a high quality of life in the immediate aftermath of retirement. Have a great month!



# WHAT'S AROUND THE BEND: 401(K) DECISIONS

For years, you've saved, invested, and planned for the day you could enjoy a long, stable, dream-filled retirement. But when it's actually time to retire, you'll be confronted with a basic but extremely important question:

*"Now that I'm retired, what should I actually do with my retirement savings?"*

For most people, a 401(k) is the easiest and most convenient way to save for retirement. But what should you do with your 401(k) once you actually stop working? Generally speaking, you have three basic options:

**Leave the assets where they are.** Some employers will allow you to leave the money in your 401(k) where it is even after you retire. There are some obvious benefits to this. For example, you may really like the investment options in your 401(k), or you may have a lot of faith in the person or company managing your 401(k). Management and investment costs may be lower within the 401(k). If so, leaving the money where it is can make a lot of sense.

There are some things to consider, however. You'll no longer be able to make contributions. No one will likely be providing active advice. Also, you will likely have fewer investment options than you will with an IRA.

**Withdraw all the funds out of your 401(k).** You can think of this as essentially "cashing out." This option certainly gives you the greatest control over your money. Unfortunately, there are many pitfalls to this approach. Depending on your age and tax situation, you may find your money is subject to both ordinary income taxes and early withdrawal penalties.

## QUOTES WE'VE BEEN THINKING ABOUT:

**"Do what you can, with what you have, where you are."**

— PRESIDENT THEODORE ROOSEVELT

Also, converting your 401(k) assets to cash means potentially exposing your retirement savings to emotional decisions and bad investment choices.

**Roll the assets into an IRA.** As long as you have earned income in retirement, you can continue to make tax deferred contributions to a traditional IRA. Also, IRAs often come with a far greater selection of investment options, which could be important as your needs and goals change. Just keep in mind that costs may be higher if you move it to an IRA.

Now, as always, there's no one-size-fits-all approach here. Choosing the right option involves understanding which best suits your needs and goals. But as you get closer to retirement, take time to determine what to do with your 401(k) – and your overall savings – so you can hit the ground running the day after you stop working.

# WHAT'S OVER THE NEXT HILL: SETTING YOUR WITHDRAWAL STRATEGY

No matter how much you've saved, no matter how well your investments have done, it can be surprisingly scary to realize you will need to start living off your savings in retirement. Of course, your Social Security benefits will play a major role in covering your monthly expenses, and there are plenty of ways to generate income in retirement. But still — realizing that your principal must now be earmarked for the present as much as the future can be a sobering thought.

Every retiree should have a strategy for when they will withdraw money from their accounts, which accounts they will draw from first, and how much they should withdraw every month, quarter, and year. There are many potential strategies to choose from, and a near-infinite number of ways to customize each strategy for you. Over the next few editions of this newsletter, we'll break down a few of the more common, starting with:

**The Buckets Strategy.** With this approach, you divide your savings into three buckets: Short-term, intermediate-term, and long-term.

The short-term bucket is the money you'll need for the next 1-3 years. These funds would usually be invested in fairly liquid assets that don't usually experience a lot of volatility. (Think cash, CDs, and short-term bonds.)

Your intermediate bucket is for goals and needs approximately 3-5 years out (Some people prefer reserving this bucket for as many as 10 years out.). Longer-term bonds and specific types of ETFs or mutual funds are popular investment options for this bucket.

## FUN FINANCIAL FACT

**Independence Day is a huge boost to the economy every year. Americans spend about $2 billion on Independence Day fireworks each year and that number is projected to shoot up even higher in 2024. Consumers bought about 246.5 million lbs. of fireworks in 2023. Americans also spent over $9.5 billion on food and $4 billion on alcohol.**

SOURCE: JULY 4TH SHOPPING STATISTICS

Finally, your long-term bucket is, essentially, for the rest of your life. This should contain money that you want to see grow throughout retirement – and because you won't need the funds anytime soon, you may be comfortable taking on a bit more risk. Individual stocks are a common choice here; annuities are an option to consider, too.

Of course, with all of these buckets, you must first determine how much you'll need to cover your short, intermediate, and long-term expenses…which means you must also determine what those expenses will be. This is an area we are always happy to assist with.

Next month, we'll look at another common withdrawal strategy: The 4% rule.



# WHAT'S ON THE HORIZON:
# PICKING A HOBBY

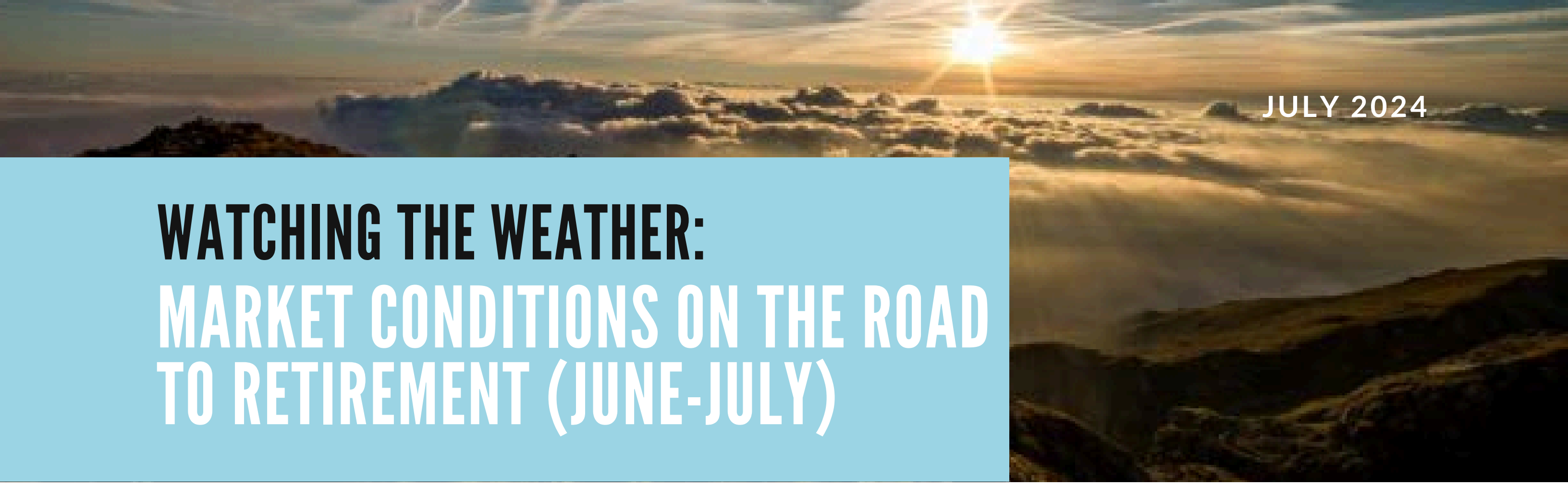
Perhaps the single biggest difference between retirement and employment is the sudden increase in free time. Now, for the first time in your adult life (maybe even the first time, period!), you answer to no one’s schedule but your own. You can be as busy or as idle as you want to be. In fact, some retirees find they have entirely too much free time … more than they know what to do with.

Fortunately, this problem is easily solved. All you have to do is find a hobby.

Maybe you already have hobbies you want to pursue in retirement. If so, great! But many people work so hard that they never have time to enjoy a hobby. Some people don’t even know what hobbies they enjoy! Alternatively, some enjoy their jobs so much that they never feel the need for a hobby … until they retire.

This may seem obvious, but it’s surprisingly effective: If you take time to decide what hobbies you want to focus on now, and then start doing them as much as possible before you retire, the likelier you are to follow through with them in retirement. (You’ll also be more likely to enjoy them!) What follows is a sample list of hobbies that many of my clients have picked up in retirement. (Beyond the usual suspects like golf and travel.)

1. **Drawing/painting**
2. **Learning a new language**
3. **Novel writing**
4. **Photography / Restoring old photos**
5. **Gardening**
6. **Learn a new instrument** — and as soon as you’re ready, go to a local jam session!
7. **Stargazing**
8. **Learn a martial art** — you’re never too old!
9. **Do genealogy work**
10. **Antiquing**
11. **Enter chess/checkers/Go tournaments**
12. **Become a community activist**
13. **Woodworking/carpentry/pottery**
14. **Coach youth sports**
15. **Home-brewing** — research local laws first, though!
16. **Beekeeping**
17. **Join a pet rescue group**
18. **Cycling**
19. **Keep chickens or goats**
20. **Join a local choir**



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# WATCHING THE WEATHER: MARKET CONDITIONS ON THE ROAD TO RETIREMENT (JUNE-JULY)

The markets were up modestly in June. Stocks were largely in a holding pattern as investors continue to wait for signs that the Federal Reserve will lower interest rates in the near future.

On that front, the most recent inflation data suggests that prices are once again starting to cool slightly. Consumer prices were up 3.3% in May compared to a year ago. That's down from the 3.4% mark in April. However, that is still well above the Fed's preferred level of 2%. It's unlikely that rates will come down until prices drop further.

The broader economy still appears healthy, with the U.S. adding a strong 272,000 jobs in May. Wage growth has also gone up over the past year. However, there are also signs of weakness in the labor market, as despite the additional jobs, the unemployment rate actually increased to 4%. This is still near historic lows, but it's worth keeping an eye on. (Job growth and the unemployment rate are two separate reports, generated by two separate sets of data. Currently, it appears the pace of new jobs is being balanced out by the number of people who are leaving the labor force, resulting in a slight uptick in unemployment.)

## HERE'S WHAT WE'RE KEEPING AN EYE ON IN JULY & BEYOND

For the last two years, the Federal Reserve has been walking a tightrope of trying to keep interest rates high enough that inflation cools down without triggering a recession. So far, the central bank has been able to keep that balance, but the wire is starting to look a little wobblier. While inflation is once again starting to come down, we must be on the lookout for any signs that the economy is cooling off at a faster rate than prices are. Should that happen, the Fed may have no choice but to lower rates sooner than they expected.



# DISCLAIMER: