

MOLDENHAUER & ASSOCIATES

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I was in Western New York last week. When in WNY, I live south of Orchard Park. I visited the office 4 days, 3 of which had some snow on the ground. As I write this, I am told the weather is beautiful. I hope it lasts.

It was nice seeing the staff and several clients. It has been a rough fall in the markets thus far, but I am sensing some long-term optimism. While I don't think the world is quite ready to settle down, I am reminded of the long-term thinker's adage. I have learned over 50 years that it is darkest before the dawn. At the end of each painful down cycle, the people who control their fears and are in well managed portfolios are always rewarded with the new market upturns followed by new highs.

In October, we restarted our educational seminar program. As most clients know, we have been doing them since 2001. We were forced to put a freeze on them during COVID while the restaurants were gearing up to serve their customers and figure out the new logistics. We are currently working on the schedule for next year. This includes reviewing some old sites for suitability, as well as, looking for a few appropriate new venues.

Things are more complicated and expensive, but we are committed to educating and serving the public. If you have not been to a session in a while, consider attending and bringing a friend. Call Karen at the office if you have questions about an upcoming seminar.

I hope you have an enjoyable Thanksgiving with family and friends!

Richard Moldenhauer

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SHOULD YOU PREPARE TO RETIRE ON 80% OF YOUR INCOME?

Examining a long-held retirement assumption.

A classic retirement preparation rule states that you should retire on 80% of the income you earned in your last year of work. Is this old axiom still true, or does it need reconsidering?

Some new research suggests that retirees may not need that much annual income to keep up their standard of living.

The 80% rule is really just a guideline.

It refers to 80% of a retiree's final yearly gross income, rather than his or her net pay. The difference between gross income and wages after withholdings and taxes is significant to say the least.¹

The major financial challenge for the new retiree is how to replace his or her paycheck, not his or her gross income.

So concluded Texas Tech University professor Michael Finke, who analyzed the 80% rule and published his conclusions in *Research*, a magazine for financial services industry professionals. Finke noted four factors that the 80% rule does not recognize. One, retirees no longer need to direct part of their incomes into retirement accounts. Two, they no longer involuntarily contribute to Social Security and Medicare, as they did while working. Three, most retirees do not have a daily commute, nor the daily expenses that accompany it. Four, people often retire into a lower income tax bracket.¹

Given all these factors, Finke concluded that the typical retiree could probably sustain their lifestyle with no more than 77% of an end salary, or 60% of his or her average annual lifetime income.¹

Retirees need to determine the expenses that will diminish in retirement.

That determination, rather than a simple rule of thumb, will help them realize the level of income they need.

Imagine two 60-year-old workers, both earning identical salaries at the same firm. One currently directs 25% of her pay into a workplace retirement strategy. The other directs just 5% of her pay into that strategy. The worker deferring 25% of her salary into retirement savings needs to replace a lower percentage of their pay in retirement than the worker deferring only 5% of hers. Relatively speaking, the more avid retirement saver is already used to living on less.

This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.

New retirees may not necessarily find themselves living on less.

The retirement experience differs for everyone, and so does retiree personal spending. A recent Employee Benefit Research Institute survey found that over a third of retirees report spending more than they had originally expected. Only 9% reported that they were spending less than they had expected.²

A timeline of typical retiree spending resembles a "smile."

A 2013 study from investment research firm Morningstar noted that a retiree household's inflation-adjusted spending usually dips at the start of retirement, bottoms out in the middle of the retirement experience, and then increases toward the very end.³

A retirement budget is a very good idea.

There will be some out-of-budget costs, of course, ranging from the pleasant to the unpleasant. Those financial exceptions aside, abiding by a monthly budget (with or without the use of free online tools) may help you to rein in any questionable spending.

Any retirement income strategy should be personalized.

Your own strategy should be based on an accurate, detailed assessment of your income needs and your available income resources. That information will help you discern just how much income you will need when retired.

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Citations.

1 - <http://www.michaelfinke.com/research.html> [2022]

2 - <https://www.ebri.org/retirement/retirement-confidence-survey> [2022]

3 - <https://www.thestreet.com/retirement/want-to-be-rich-in-retirement-plan-better-save-more/2/23/22>



THE BIGGEST COLA INCREASE SINCE 1981

How well do you remember 1981? Harrison Ford had his first bow as Indiana Jones in Raiders of the Lost Ark. Frogger and Donkey Kong were all the rage at video arcades. Bob Ross left the Air Force and took up painting. On top of that, we had the largest Social Security cost-of-living adjustment (COLA) on record: 11.2%.

This year's COLA increase won't reach that high, but the Senior Citizens League anticipated it to be as much as 8.7%. As it turns out, they were right on the nose. This tops last year's 5.9% increase.¹

What this increase means for those collecting Social Security benefits is additional help battling inflation. The average Social Security retiree benefit will increase \$146 per month, to \$1,827 in 2023, from \$1,681 in 2022.¹

Why is it happening now? Congress has COLA increases pegged to rising inflation. While there's been a great deal of talk about inflation this year, the increase depends on the much-anticipated official numbers: the third quarter's Consumer Price Index (CPI) is measured against the CPI of the previous year, and the COLA is calculated from that.

While this increase has been widely anticipated, you may still have questions about this and other economic factors. I'm happy to discuss how this might affect your financial strategy.

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Citations.

1. CNBC.com, October 13, 2022

THE BEHAVIOR GAP AND YOUR FINANCIAL HEALTH

How might it affect you?

"It turns out my job was not to find great investments but to help create great investors," writes Carl Richards, author of "The Behavior Gap." From increasing our budget mindfulness to taking a steadier approach to investing, Richards has drawn attention to how our unexamined behaviors and emotions can be to our detriment when it comes to living a happy and financially sound life. In many cases, we make poor financial decisions when experiencing panic or anxiety due to personal or widespread events.¹

The Behavior Gap Explained.

Coined by Richards, "the behavior gap" refers to the difference between a wise financial decision versus what we decide to do. Many people miss out on higher returns because of emotionally driven decisions, creating a behavior gap between their lower returns and what they could have earned.

Excitement When Stocks Are High.

Whether in a bull market or witnessing the hype from a product release, many investors may feel tempted to increase their risks or attempt to gain from emerging investments when stocks are high. This can lead to investors constantly readjusting their portfolios as the market experiences upswings.

Fear When Stocks Are Low.

In response to market volatility, investors may feel the need to choose more secure investments and avoid uncertain or seemingly unsafe investments. When stocks are low, a typical response may be to sell and effectively miss out on potential long-term gains.

Short-Term Anxiety and Focus.

As humans, viewing aspects of our lives through the lenses of current circumstances is normal. However, one emotional response to any event is letting the moment consume us. Many may find it difficult to think long-term and remember. However, making a rash decision can inhibit the long-term benefit of maintaining a balanced perspective without reactionary behavior.

The market can go up or down at any given point, or it can remain the same. One thing we can control is how we handle our financial strategy. Remembering the likelihood of recovery over time — and the market's nearly inevitable up-and-down movement — can provide a more logical angle to calm the nerves.

If you're experiencing financial anxiety in response to the markets, take a breath and remember the potential for long-term gains. Of course, you can and should always reach out to your financial professional for further clarification.

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Citations

1. BehaviorGap.com, May 16, 2022

UPCOMING EVENTS:

Our upcoming seminars are at:

GDI Countryside Inn

Tuesday, January 24, 2023 at 6 p.m.
2049 Sandridge Road
Alden, NY 14004

The Eagle House Restaurant

Thursday, January 26, 2023 at 6 p.m.
5578 Main Street
Williamsville, NY 14221

TOYS FOR TOTS

Once again, Moldenhauer & Associates is going to do our part to give the many disadvantaged children in WNY a very Merry Christmas. Please consider donating to this worthwhile cause. When you enter our waiting area, **from now through Tuesday, December 13th**, you will see a Toys For Tots display that is sponsored by the Marine Corps Reserve of WNY.

If you're coming in for a scheduled appointment with one of our financial advisors, or if you just happen to be in the neighborhood, please make it a point to stop by and add a new, unwrapped toy to the barrel. The Christmas season is one of good will and cheer. Help us do our part to send the spirit of Christmas to as many children as we can. Let us all make a difference that counts.



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.

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