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Financial Briefs

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Investing Before and During Retirement

There are two phases in the life cycle of a retirement portfolio: the time when you're contributing to it and the time when you're using it to cover your living expenses. During each phase, the basic challenge is deciding how to invest your nest egg, and for that there are three common approaches:

- **Going with your comfort level.** Most people have some idea as to what investments are appealing to them, either because of the rate of return associated with them or how much safety they seem to offer. Some people would never put their money anywhere but in an insured savings account or U.S. Treasury security. Others feel there's no better place than the stock market, commodities, real estate, or tax-free municipal bonds. Whichever it is, people tend to pile their retirement funds in one place — which can cause problems if there is a significant decrease in that investment.
- **Using a one-size-fits-all formula.** There are at least several of these formulas floating around. On the theory that the closer you get to retiring the more conservative you should become, one says you should subtract your age from 100, treat the result as a percentage, and put that portion of your portfolio in stocks and the rest in bonds. Another follows the same method, but suggests you subtract your age from 120. The appeal of this approach is that it's simple and unambiguous. The downside is that the results don't take into account the details of your circumstances (your income, your savings, how much your future lifestyle will cost), the state of the economy and inflation, or the cyclical nature of market returns.
- **Using a financial plan.** A plan includes all the details that the other two methods leave out. It's by far your best bet for achieving your retirement goals since it takes your circumstances and the state of the economy into account. The plan should be split into before-retirement and during-retirement strategies.

Before You Retire

The key factor is to determine

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Should You Retire Early?

Not so long ago, most working people wanted to retire early. But the prospect of retiring at a young age and depending on your investments for income for decades is suddenly a scarier thought. Should you consider retiring early?

Much will depend on your definition of early retirement. If your definition means to quit working completely so you can travel extensively and pursue expensive hobbies, then you might want to postpone those plans for a while. However, if your definition means to change careers to work part time at a less stressful job, cut back on your living expenses, and only take minimal amounts from your retirement savings until Social Security and pension benefits kick in, then your early retirement plans might still be feasible. If you want to seriously consider early retirement, review these tips:

- **Make sure you know what you're going to do with your time.** When you're working full time, it seems like you could fill all your waking hours with the things you don't have time to do. But if you're used to a fast-paced life, can you really expect to spend the next 20 to 40 years of your life just puttering around the house and golfing? Make sure you have concrete plans to

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Investing

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what rate of growth you need to achieve in your portfolio to retire with a nest egg capable of supporting you for the rest of your life once you no longer earn a paycheck. It's a balancing act between how much you can afford to put aside every year, how much growth will maximize your nest egg, and how much risk you feel comfortable taking.

By analyzing these factors, a good financial plan produces a recommended asset allocation strategy that specifies how much of your portfolio should be invested in stocks, bonds, cash, commodities, and real estate. The mix you invest in aims at a target rate of return and risk level that both meets your goals and makes you comfortable with the year-to-year results.

In general, the younger you are, the more risk you can afford to take, since you will have many market and economic cycles to smooth out your returns. It's not unheard of for someone in his/her 30s or 40s to invest up to 70% or 80% of his/her assets in stocks. Conversely, younger people who are risk-averse may be able to take less risk and put more of their assets in bonds, as long as they have more modest retirement goals.

It's generally true that the closer you are to retiring, the more conservative your portfolio ought to be. But this doesn't suggest the precise proportions you ought to put into each asset class, nor does it take into account the opportunities or challenges that current market conditions present. Those answers will come only when you get into the details of your current situation and your future goals.

After You Retire

Before you retire, your asset allocation strategy is driven largely by the goal of creating the largest possible retirement portfolio within the limits of your tolerance for risk. After you retire, the goal shifts to keeping your retirement portfolio large enough to continue generating the supplemental income you need for the rest of your life.

While this shift means your strategy aims for less growth and risk than in the accumulation stage, it's usually a mistake to revert to the most conservative strategy possible. That's because your portfolio gets eroded over time by:

- Inflation, which means the real value of your portfolio (as well as the buying power of the income it throws off) gets smaller every year.
- Taxes on income and capital gains in taxable accounts and withdrawals from non-Roth IRAs.
- Withdrawals you make to support your lifestyle.

Because of this constant shrinkage, some portion of your portfolio needs to be invested in stocks, which is a riskier asset class but typically stays ahead of inflation, taxes, and reasonable rates of withdrawals.

Please call if you'd like to discuss your situation.

Avoid Withdrawal Mistakes

As you near retirement age, you need to start thinking about how to withdraw those funds to maximize your income. Avoid these mistakes:

- **Not understanding all available options.** Each retirement option has different tax and plan rules regarding withdrawals. Review all your options to select the best choice for your circumstances. In many cases, your selection will be irrevocable.
- **Not using reasonable estimates to calculate your withdrawal amounts.** The amount you should withdraw annually can be calculated based on how much principal you want remaining at the end of your life, your life expectancy, your expected long-term rate of return, and your expected long-term inflation rate. If you don't use conservative estimates, you run the risk of depleting your assets before you die.
- **Not withdrawing funds in a tax-efficient manner.** Review all your retirement assets to determine the most tax-efficient strategy for withdrawals. This can add years to the life of your retirement funds.
- **Retiring early without considering the financial implications.** Retiring even a few years earlier than planned can significantly impact the amount needed for retirement. Make sure you'll have sufficient funds for your entire retirement before opting to retire early.
- **Taking a lump-sum distribution in your name.** When rolling over a lump-sum distribution from a 401(k) plan or other qualified plan, transfer the funds directly to your new account's trustee. Otherwise, your former employer will withhold 20% for taxes when the funds go directly to you. You will then have to replace the 20% from your own funds within 60 days or the 20% withholding will be considered a distribution.
- **Not taking required minimum distributions.** Once you reach age 73, you must take required minimum distributions from traditional IRAs and other qualified plans or pay a 50% excise tax on the amount you should have withdrawn. If you are still working, you can delay withdrawals from qualified plans, but not from traditional IRAs, until you retire.
- **Not selecting proper beneficiaries.** The proper selection of beneficiaries can make a significant difference in the amount of taxes owed when you die.
- **Not seeking advice.** Determining how much to withdraw from your retirement investments and the best way to make those withdrawals can be complicated. Please call if you need help with these decisions.

Retire Early?

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fill your days so you don't get bored early in retirement. If possible, ask your employer to give you a short sabbatical. That way, you can see how well you'll adjust to retired life. If you like it, you can go ahead and retire. If you find yourself quickly bored, you haven't given up your job.

- **Calculate your numbers carefully.** You want to be sure your retirement savings and other income sources, such as Social Security and pension benefits, will support you for what could be a very lengthy retirement. When calculating how much you need for retirement, be very conservative. Bump up your expected expenses by 5% to 10%, add a few years to your life expectancy, reduce your expected return by a couple percent, and increase your inflation expectations. Don't expect to draw more than 3% to 4% annually from your retirement investments. Now, can you really afford to retire early?
- **Cut back on your standard of living.** Unless you're very wealthy, you probably won't be able to retire early and afford fancy cars, expensive homes, and other luxuries. Cutting back your expenses now will serve two purposes. It will provide more money to save for retirement and it will reduce your living expenses now and during retirement. Don't just look at obvious ways to cut back. Look at more drastic measures, such as moving from your current home to a smaller one or comparison shopping for items like auto and home insurance.
- **Work at least part time during retirement.** Even a small amount of income after retirement can go a long way in helping to fund your retirement expenses. Consider working at a less stressful job, starting your own business, or turning hobbies into a paying job. This can give you time to pursue travel, hobbies, and other interests, while helping to fund a long retirement.
- **Move to a less expensive city.** The cost of living in different cities across the country and in different countries can be vastly different. If you live in a city with a high cost of living, moving to a different location can dramatically lower your living expenses. However, this is not just a financial decision. You need to consider whether you'll be happy living somewhere else, away from family, friends, and other ties.

While retiring early certainly seems more challenging, that doesn't mean it can't be done. But you do need to make sure your plans are realistic before retiring. Please call if you'd like help developing a plan for early retirement.

When to Use Tax-Advantaged Accounts

Tax-advantaged savings plans, like 401(k) plans and individual retirement accounts (IRAs), help your money grow faster than taxable investments, but they're not always the right place for your savings. There are circumstances when it can be more advantageous to keep your money in a taxable investment vehicle. Consider these points:

Put your money in a tax-advantaged saving plan when:

- Your employer matches your contribution. It's rare that taking advantage of this free money doesn't make sense.
- You already have savings equal to at least three months of living expenses in safe and readily available savings vehicles and, if you have dependents, adequate life insurance coverage.
- You already own a home and are comfortably meeting your monthly mortgage payments.
- You haven't yet met your goal for a retirement nest egg and need the return-enhancing advantage of tax-free compounding to reach it.

Consider *not* contributing to a tax-advantaged plan when:

- Either you're already at the limit of your employer's matching contribution or your employer doesn't offer one. (Though even in these cases it may still make sense to contribute to your 401(k), as long as the plan's fees and expenses are low and it offers sufficient diversification.)
- The investment choices in your employer's plan charge high annual expense fees. The pretax advantage of contributing to a 401(k) plan can be eroded by fees.
- You're in a high tax bracket and want to invest in individual equities for long-term capital gains. Rates on long-term gains are well below the highest federal income tax bracket, and unless you contribute to a Roth IRA or Roth 401(k) plan, you'll have to pay ordinary income taxes on the gains on stocks in a traditional IRA or 401(k) plan.
- You want to diversify beyond the choices available in an employer's retirement plan. If this is the case, you may still want to contribute to an IRA, but through an account with sufficient diversification options.
- You want municipal bonds to be part of your portfolio. If you hold municipal bonds in a traditional IRA or 401(k) plan, any interest income, even tax-exempt income, will be taxed at ordinary income tax rates when withdrawn. It is better to hold municipal bonds in taxable accounts so the tax-exempt interest income is not taxable.

As financial planning decisions always do, the decision to invest in a tax-advantaged or taxable retirement plan depends on your current situation and your goals for the future. Please call if you would like to discuss this in more detail.

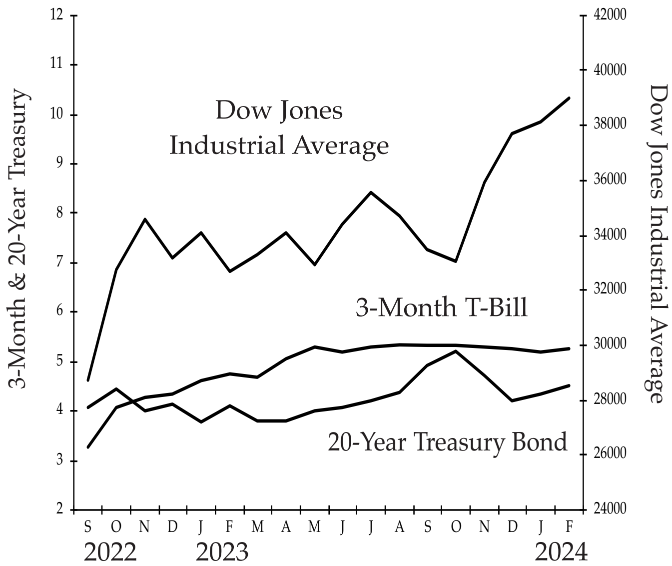
Business Data

Indicator	Month-end Dec-23	Jan-24	Feb-24	Dec-23	Feb-23
Prime rate	8.50	8.50	8.50	8.50	7.75
3-month T-bill yield	5.26	5.21	5.26	5.26	4.75
10-year T-note yield	3.88	3.99	4.25	3.88	3.92
20-year T-bond yield	4.20	4.34	4.51	4.20	4.10
Dow Jones Corp.	5.17	5.31	5.49	5.17	5.65
GDP (adj. annual rate)#	+2.10	+4.90	+3.30	+3.30	+2.60

Indicator	Month-end Dec-23	Jan-24	Feb-24	% Change YTD	12-Mon.
Dow Jones Industrials	37689.54	38150.30	38996.39	3.5%	19.4%
S&P 500	4769.83	4845.65	5096.27	6.8%	28.4%
Nasdaq Composite	15011.35	15164.01	16091.92	7.2%	40.5%
Gold	2068.67	2053.25	2048.05	-1.0%	12.2%
Unemployment rate@	3.70	3.70	3.70	0.0%	8.8%
Consumer price index@	307.05	306.75	308.42	0.4%	3.1%

— 2nd, 3rd, 4th quarter @ — Nov, Dec, Jan Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
September 2022 to February 2024



News and Announcements

Drawdown Retirement Funds Carefully

One of the toughest decisions you'll make when retiring is deciding how much to withdraw annually from your retirement investments. Take too much out and you could spend your later retirement years relying on the help of relatives or enduring a lower living standard.

Your withdrawal amount can be calculated based on your life expectancy, expected long-term rate of return, expected inflation rate, and how much principal you want remaining at the end of your life. Guess wrong on any of those variables and you risk depleting your assets too quickly. To help ensure you don't run out of retirement assets, consider these strategies:

- **Use conservative estimates in your drawdown calculations.** Add a few years to your life expectancy, reduce your expected return a little, and increase your inflation expectations. That will result in a lower withdrawal amount, but it will also help ensure your funds don't run out. Take a careful look at any answer that indicates you can take out much more than 3% to 5% of your balance each year, which is a reasonable withdrawal amount if you want your funds to last for several decades. That doesn't mean you can't take out more, but you should be very confident of your assumptions before doing so.
- **Review your calculations every couple of years.** This is especially important during your early retirement years. If you find you're depleting your assets too rapidly, you may be able to go back to work on at least a part-time basis. If you find out late in life that you're running out of assets, working may not be an option.
- **Place three to five years of living expenses in short-term investments.** That way, if there is a severe market downturn, you won't have to touch your stock investments for at least three to five years, giving them time to recover.

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