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The Wealth Advisor

WINTER 2022

8 Questions Your Financial Plan Should Answer

You may have a financial plan, but is it really working for you? The fact is, not all financial plans are created equal. To make sure that your financial plan is going to get you where you want to be financially, make sure that it answers these eight questions.

How much do I have, and how much do I owe?

Before you complete any other financial planning task, you need to take stock of where you currently stand. That means taking a complete inventory of your assets as well as assessing how much you owe. Subtracting the second from the first will tell you your net worth. Your financial plan should make it easy to determine your net worth at a glance.

What do I want to achieve with my money?

We all have personal and financial goals. Perhaps you want to buy a bigger house in a nicer neighborhood. Maybe you want to be able to send your kids to college debt-free. You might be dreaming of owning a second home someday, retiring at 55, or starting your own business. Your financial plan should specifically identify your financial goals and outline steps you need to take to turn those dreams into reality.

Are my investments appropriate for my goals?

You know what your goals are, but is your money invested in a way that will help you get there? Your financial plan should point you toward investments that are appropriate for both your goals and your risk tolerance. That means carefully balancing the risk you need to take to achieve acceptable investment

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When Can You Retire?

When can you retire? It depends — on how old you are; how much you have saved; the extent to which you'll rely on Social Security, a pension, or tax-advantaged retirement accounts; how your investments perform; the kind of lifestyle you want in retirement; and how long you'll live.

Factors to consider when setting a target retirement age

1. What kind of lifestyle do you want in retirement? Given the same monthly savings rate, there is a tradeoff between when you can retire and the kind of lifestyle you can have once you do. For example, if you're currently 50 years old, earn $50,000 per year, and plan to live to age 90, for about the same monthly savings amount you can retire at age 65 with 50% of your preretirement income or at age 70 with 100% of your preretirement income (Source: Kiplinger Retirement Savings Calculator).

2. What does Social Security consider to be your full retirement age? The government will let you start receiving Social Security benefits at age 62, but those benefits will be less than what you'd receive if you waited until your full retirement age. For example, for an individual born in 1960 or later who retires at age 62 instead of age 67 (his full retirement age), his monthly benefits will be reduced by 30%. For individuals born before 1960, full retirement age ranges from 65 to 66 and 10 months, and the reduction in benefits for retiring at age 62 ranges from 20% to 29.17%.

3. What do your pension plan

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8 Questions

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returns with the amount of risk you're comfortable taking based on your personality (some of us are natural risk takers, while some are more risk averse).

Am I protected in case of a disaster or emergency?

One of the main reasons to have a financial plan is to protect yourself and your family in the event that the unexpected happens. Part of being prepared is having an emergency fund, and your financial plan will tell you how much savings you should have. But that's just the beginning. You'll also want to protect your income with disability insurance and safeguard your assets by having proper insurance.

Am I paying the right amount in taxes?

Thinking about taxes is no fun, but what's a real drag is realizing you've been paying the government more than you needed to. A comprehensive financial plan will include an evaluation of your tax situation. If necessary, your advisor will make suggestions for steps you can take to better manage your tax burden and keep more of the money you earn.

What's my plan for retirement?

Whether you're a few years or a few decades away from retirement, your financial plan should include a plan for what will happen after you stop working full time. Your financial plan should address how much you need to be saving for retirement and how to invest that money.

What will happen to my money when I die?

Your financial plan and your estate plan go hand in hand. Part of comprehensive financial planning involves checking to make sure the beneficiaries on your retirement accounts and insurance policies match with your overall estate planning goals. A financial planner can also work with your estate planning attorney to make sure your assets aren't lost to unnecessary taxes and address other issues related to how your wealth is distributed after your death.

Who is in charge of helping me achieve my money goals?

Finally, your financial plan should clearly identify who is in charge of helping you achieve your most important money goals. Your financial advisor is a critical partner in your financial life, guiding you to make smart decisions that will put you on the path to achieving your goals.

Please call if you'd like to discuss this in more detail. ❍❍❍

Decisions Regarding College Funding

Before you can determine how much to save for your children's college educations, there are several decisions to make:

Does each child require the same level of support? While parents typically want to treat children equally, each child's needs may differ. One child may excel in school and want to attend an expensive private college, while another child may feel more comfortable at a local public university. Consider the best options for each child.

What is your savings goal? To keep your savings amount reasonable, you can estimate your savings target based on today's college costs, increasing that amount every year to cover actual college cost increases. Also decide whether you are aiming for a public or private college, which have vastly different costs.

Will your child contribute toward college costs? Most children would have difficulty paying for all college costs, but you may expect your children to help fund certain costs or a certain percentage of total costs. For instance, you may make them responsible for room and board, tuition, books, or personal expenses.

Will your family qualify for financial aid? Even if your child is several years from college, it is worthwhile to evaluate whether you would be eligible for financial aid. Don't just assume that you will be precluded from aid if your income is high. Also, be aware that many scholarships are awarded based on merit, not need.

Will you need loans to pay some college costs? By starting a savings program early, hopefully you won't have to borrow for college. Borrowing can put a significant strain on your finances, usually at a time when you should be concentrating on saving for retirement. However, there are a variety of loan options available, with some of the least costly available only to students. Even if you don't want to burden your child with these loans, it may make sense for your child to obtain the loan. You can then give the funds to him/her at a later date to repay the loan.

How much can you save on an annual basis for college? You don't have to select a fixed amount to contribute annually. You may decide to increase savings in the early years or contribute an increasing amount every year.

How will you save for college? There are a number of ways to save for college and to reduce your after-tax costs. Look into section 529 plans, Coverdell education savings accounts, education tax credits and deductions, saving in your child's name, and using IRA funds to pay college costs. Evaluate all options in light of your financial situation.

After making these decisions, you may find your college savings amount is not as daunting as you thought it would be. Please call to discuss this in more detail. ❍❍❍

When Can You?

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and other retirement plans consider to be full retirement age? Like Social Security, most pension plans have a certain minimum age at which they will begin paying benefits (at a reduced rate), and a certain age at which you become eligible to start receiving full benefits. Similarly, tax-advantaged retirement plans like 401(k) plans and IRAs penalize distributions (except in certain circumstances) before age 59½.

If you would like to retire at age 62, but the math just isn't working out, you might consider partial retirement.

Ways to Partially Retire

Work part-time. Working part-time, either at your current job or another one, is one way to continue generating income while still having more time to pursue the retirement activities you've been looking forward to. Some people enjoy working a few hours every day, a couple of days a week, or even just a few months out of the year, depending on what the job is.

Consult. You've likely spent many decades honing your skills in a particular job or industry. And while some employers might be wary of hiring older workers full time, they're often eager to tap the expertise of older workers on a contract basis. So consulting can be a good way to continue earning income while also freeing up time to golf, play with the grandkids, and whatever else you've been putting off for retirement.

Sell your wares. If you had planned to do craft-related activities in retirement anyway, why not consider selling your wares? Online craft sites make selling homemade items relatively easy. If you join a local craft-making group, you could find the activity both financially and socially rewarding.

Please call if you'd like to discuss this in more detail. ❍❍❍

Advice on Saving for Children

Your child has finally finished college and started his/her first full-time job. What is the most important financial advice you can give?

Participate in a 401(k) plan as soon as possible. The quality of your children's retirement will largely be determined by the amount of money they save, and a 401(k) plan is a great place for them to start. Before marriage, a new home, or other obligations consume their entire paycheck, get them into the habit of saving. Because the contributions are deducted before they even see their paycheck, it's a great way to get them into the habit of saving on a regular basis.

Having trouble convincing them this is a good strategy? Perhaps some numbers will make the point. Assume your child starts contributing to his/her 401(k) plan at age 25, contributing $6,000 per year (substantially below the maximum contribution in 2022 of $20,500), with matching employer contributions of $3,000. If he/she earns 8% annually, he/she could have a balance of $2,331,509 at age 65, before the payment of any taxes. What if he/she waits until age 35 to start contributing? At age 65, the balance could be $1,019,549, still a substantial amount, but $1,311,960 lower than if he/she started at age 25. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment vehicle.)*

What if your child still isn't convinced? Consider reimbursing him/her, as part of your annual gift tax exclusion, for any 401(k) contributions. You can reimburse the entire amount or offer to make a partial reimbursement.

Don't let your child procrastinate because there are too many decisions to be made. Just encourage him/her to start contributing, reassuring him/her that none of the decisions is permanent. He/she can review contribution levels, investment choices, beneficiary designations, and other matters at a later date.

If your child has the option to contribute to a regular 401(k) plan or a Roth 401(k) plan, suggest contributing to the Roth 401(k). Employer matching contributions will still be made to a regular 401(k) plan, but your child's contributions can go to the Roth 401(k). Your child won't get a current tax break for contributions made, but he/she will owe no taxes on the contributions or any earnings when withdrawals are made. This can make a huge difference in the amount of money available for retirement.

What if your child doesn't have a 401(k) plan at work? Encourage him/her to contribute to an individual retirement account (IRA). Although contributions are limited to $6,000 in 2022 compared to $20,500 for 401(k) plans, IRAs are still a good way to save for retirement. Again, suggest a Roth IRA rather than a traditional deductible IRA, so that qualified withdrawals can be taken with no tax consequences.

Please call if you'd like to discuss this concept in more detail or would like help with examples that are more pertinent to your child's situation. ❍❍❍

FINANCIAL DATA

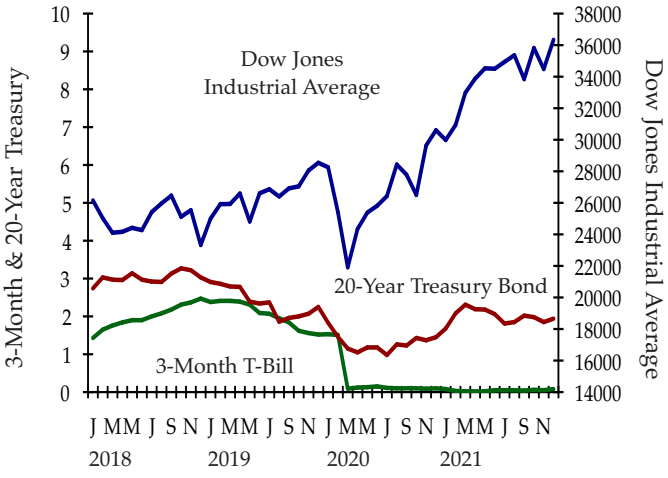
Indicator	Month-end Oct-21	Nov-21	Dec-21	Dec-20	Dec-19
Prime rate	3.25	3.25	3.25	3.25	4.75
Money market rate	0.07	0.07	0.07	0.20	0.58
3-month T-bill yield	0.06	0.05	0.08	0.10	1.52
10-year T-bond yield	1.55	1.43	1.52	0.93	1.92
20-year T-bond yield	1.98	1.85	1.94	1.45	2.25
Dow Jones Corp.	2.37	2.54	2.48	1.93	2.84
30-year fixed mortgage	2.60	2.64	2.63	1.91	3.31
GDP (adj. annual rate)#	+6.30	+6.70	+2.30	+4.30	+2.10

Indicator	Month-end Oct-21	Nov-21	Dec-21	% Change 2021	2020
Dow Jones Industrials	35819.56	34483.72	36338.30	18.7%	7.2%
Standard & Poor's 500	4605.38	4567.00	4766.18	26.9%	16.3%
Nasdaq Composite	15498.39	15537.69	15644.97	21.4%	43.6%
Gold	1769.15	1804.40	1805.20	-4.4%	23.9%
Consumer price index@	274.31	276.59	277.95	6.8%	1.2%
Unemployment rate@	4.80	4.60	4.20	-37.3%	91.4%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*

4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

JANUARY 2018 TO DECEMBER 2021



Past performance is not a guarantee of future results.

NEWS AND ANNOUNCEMENTS

YOUR FINANCIAL GAME PLAN

Most financially secure individuals have written goals and priorities as well as a system for monitoring those goals. A comprehensive financial plan should consider these six areas:

• **YOUR STANDARD OF LIVING** — What steps can you take to maintain and improve your standard of living?

• **YOUR SAVINGS** — Do you have adequate funds for emergencies?

• **PROTECTION** — What arrangements are made to protect your assets, including your most valuable asset — your earning power?

• **ACCUMULATION** — How much have you accumulated for significant financial needs, such as a child's college education or retirement?

• **FINANCIAL INDEPENDENCE** — Do you have a program to maintain your accustomed standard of living at retirement?

• **ESTATE PLANNING** — What arrangements have you made for the distribution of your assets at your death? ○○○