HCM WEALTH ADVISORS

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Making the Fragile Decade Stronger with Dividends

The "fragile decade," or the five years before and after retirement, plays an outsized role in your financial future. Studies show that over 80% of your financial outcome is determined during this period.

The biggest financial hurdle retirees need to get around during this time is **Sequence Risk**.

> **Sequence Risk** is the danger that the order (or sequence) of the market's returns will have a negative impact on the sustainability of planned withdrawals.

For example, if the market delivers negative returns soon after your retirement, it will reduce the value of your retirement assets. That will require you to draw down a larger percentage of your portfolio to pay the bills, decreasing your investment assets and reducing your ability to participate in the market's ultimate recovery. HCM uses a variety of protocols to protect our clients from sequence risk, including the HCM Safety Net™, bond ladders, customized distribution policies, risk-based scenario analysis, asset class diversification, and Dividend Growth strategies.

With very few exceptions, HCM prefers growing dividends to annuity payments to provide reliable income. Structurally, annuities are inferior to Dividend Growth strategies. This is because annuities are products manufactured and sold by financial companies, usually at high commissions, while dividends are the fruit of your direct ownership in a business. Because annuity owners are buying a product (the annuity), there are many fees attached to the management of that product. The annuity owner is on the hook for these fees, normally leading to a lower return than if they had invested directly.

There are tax disadvantages associated with annuity ownership as well. Annuity payments are taxed as ordinary income at your highest marginal rate, which could be as high as 37%. Meanwhile, dividends, assuming they are qualified dividends, are taxed at lower capital gains rates ranging between zero and 23.8% depending on your income level. As we say, "it's not what you make, it's what you keep that counts," and with dividend growth investing, you keep more of what you earned.

Finally, there are inheritance and estate planning advantages to dividends over annuities. Stocks enjoy a stepped-up basis, which means your Family will not owe capital gain tax on the appreciation that occurs during your lifetime. So, even if you earned a 1000% gain on the portfolio that goes to your Family, they will owe no income tax on those profits. On the other hand, a non-qualified annuity does not provide a step up in basis and all deferred earnings will be taxed to your Family as ordinary income at their highest marginal tax rate.

Worst of all, single life annuities, which are sold to many retirees, result in all remaining balances being surrendered back to the insurance company leaving nothing for your Family.

Are there drawbacks to dividend growth investing? Of course. The principal drawback is the volatility associated with owning stocks compared to purchasing an annuity. But, dividend-paying stocks have been historically less volatile than the market overall. There is no silver bullet for retirement, but when you're considering the whole picture, we believe Dividend Growth Investing is superior to buying an income stream such as an annuity. This is why HCM Wealth Advisors prides itself on incorporating its Dividend Growth strategy into the retirement income strategies we design for our Clients.

Long-Term Healthcare Planning

Long-term healthcare is a serious need in our society, and one that not enough people plan for. It's not something anyone wants to think about, but it's something many of us will need. Of retirees, 52% will incur long-term care costs, with 15% paying over a quarter of a million dollars. Costs can range from $70 a day for an adult day health center to over $100,000 per year for a nursing home. Unfortunately, two-thirds of Americans age 40 and older say they've done little or no planning for their long-term care needs.

What Are Long-Term Care Needs?

Long-term care needs aren't medical care, but rather assistance with the typical tasks of everyday life, such as preparing meals, doing household chores, or dressing oneself. These are tasks that wouldn't be difficult for a healthy person but can be a real challenge to someone who may not have all their faculties about them. As was detailed above, this can get expensive quickly, especially if you're in a long-term care situation for multiple years.

How can I pay for long-term care?

Currently, the majority of long-term care is "self-insured" and paid for out of pocket, with about a third covered by Medicaid, a tenth by Medicare, and the rest by private and other public sources.

Some people have unpaid caregivers, such as a family member or friend who may be able to assist them with their daily activities. This is nice, but it can oftentimes lead to hardship for the caregiver. For those who do not have this help, there are several options for covering long-term care costs:

- **Planning ahead with an income annuity/dividend growth portfolio:** For the reasons discussed on page1, we believe that a dividend growth portfolio is a superior investment to an income annuity. Talk to us about it if you have any questions and certainly before you purchase an annuity.

- **Purchase Long-Term Care Insurance:** Long-Term Care Insurance can help defray the costs of long-term care. Typically, long-term care insurance will only cover a specific dollar amount for each day spent in a nursing facility or for each home care visit. As such, it is important to read the policy carefully before making a decision. Fortunately, long-term care insurance is tax-preferenced: the premiums for long-term care are deductible if they exceed 10% of your Adjusted Gross Income. Additionally, up to certain limits, benefits are not taxed as income.

- **Sell your home:** If your financial need is greater than what a reverse mortgage can provide, selling your home may make sense.

- **Consider a reverse mortgage:** A reverse mortgage allows you to convert part of the equity in your home into tax-free cash without having to sell your home or pay additional monthly bills. This is available to people 62 and older. It should be considered very carefully, though. This can use up the equity in your home, which could affect your estate plans. Be sure to speak with an advisor before going forward.

- **Medicaid:** Medicaid serves as a long-term care provider, but it can only be accessed when nearly all your resources have been spent. If you see Medicaid in your future, it's important to know the rules as to what resources are counted when determining eligibility. This can cause a great deal of financial stress for a spouse that continues to live outside the nursing facility. For this reason, careful planning is required well in advance. Your advisor can help you with these questions.

As in any situation, it's important to be prepared. Having a plan for Long-Term Care as part of your comprehensive wealth plan is essential to your and your family's quality of life and peace of mind for the coming years.

How to Live to 100

Have you thought about the type of cake you'll want to have on your 100th birthday? Probably not, as living to 100 is something of a rarity in our society. However, there are a number of areas, known as "Blue Zones," where nonagenarians and even centenarians abound.

How do they do it? In "The Blue Zones: Lessons for Living Longer From the People Who've Lived the Longest," author Dan Buettner highlights five areas where people live as much as a decade longer than those in nearby communities with low levels of dementia and disability. They range in location from Greece, to Japan, to Sardinia, to Costa Rica, to California.

One common trait among these people is that they eat a primarily plant-based diet, relying heavily on fruits, vegetables, whole grains, and legumes, eating meat maybe once a week, and as a side dish rather than the main course.

Another trait is that they incorporate exercise into their daily lives by gardening, walking, cooking and doing other daily chores. A study of men in the Sardinian Blue Zone found that their longer life was associated with raising farm animals, living on steeper slopes in the mountains and walking longer distances to work. Another study of 13,000 men showed that the distance they walked or stories of stairs they climbed could predict how long they would live. Sufficient rest is also important. Blue Zone residents get about 7 hours of rest per night, which has been shown to be ideal. Getting significantly more or less rest than that has been shown to increase the risk of death.

In addition to good physical health practices, they adopt good mental health practices as well. Most Blue Zone communities are religious or spiritual, which has been shown to increase longevity, possibly through the social support offered. Having a life purpose is another key element of Blue Zone Life, which can increase psychological well-being and decrease risk of death. Multigenerational families living together is another hallmark of Blue Zones, as is a healthy social network, both of which have been shown to contribute to a longer life.

Although Blue Zones are geographically dispersed and culturally dissimilar, they share a number of common lifestyle traits. These traits have been shown to increase years lived, as well as the quality of those years lived. If you follow their example, you could add a few extra quality years to your retirement.

Key Contribution Numbers for 2020

This year, the Internal Revenue Service announced cost-of-living adjustments that affect contribution limits for retirement plans. Here are a few of the adjustments for 2020.

Employer Retirement Plans

Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2020 (up from $19,000 in 2019). Employees age 50 and older can defer up to an additional $6,500 in 2020 (up from $6,000 in 2019).

Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2020 (up from $13,000 in 2019), and employees age 50 and older can defer up to an additional $3,000 in 2020 (the same as in 2019).

IRAs

The limit on annual contributions to an IRA will remain $6,000 in 2020, with individuals age 50 and older able to contribute an additional $1,000.

Health Savings Accounts

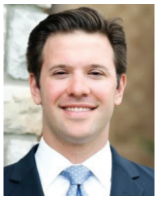
The contribution limit (employer + employee contribution) is $3,550 for individuals (up from $3,500 in 2019) and $7,100 for families (up from $7,000 in 2019). Health Savings Accounts allow for a $1,000 catch-up contribution for participants age 55 and higher. If you participate in a family HSA, and both spouses are over age 55, check with your HCM Advisor to see if you are eligible to make additional deductible contribution. Remember that HSAs are triple tax advantaged, so every tax savvy participant will want to take advantage of this benefit.

HCM Out and About

Matt Calme - Awarded CFP Certification

Congratulations to Matt for earning his CERTIFIED FINANCIAL PLANNER™ certification! Becoming a CFP® involves meeting several demanding requirements including: completing formal education, successful performance on the CFP® certification examination, extensive relevant work experience, and demonstrated professional ethics. An additional advantage of working with a Registered Investment Advisor such as HCM Wealth Advisors and CFP® professionals such as Matt is our commitment to working as a fiduciary which means we always place our clients' interests above our own. Way to go Matt!

Matt's certification is a valuable addition to the Hengehold Financial Group's team, which holds a variety of professional certifications including CFP®, CPA, CFA®, and RICP® as well as multiple post graduate degrees.



Steve Hengehold - Earned the RICP® Designation

Steve became the second member of HCM Wealth Advisors to receive the RICP® Certification, or Retirement Income Certified Professional Designation®. The designation means that Steve has taken advanced studies to gain specialized knowledge in the area of retirement income planning beyond what is required by the CFP Board. RICP® recipients are specifically credentialed to help those planning for and living in retirement to make the best use of their financial resources to properly fund their retirement goals. Steve's accomplishment will benefit HCM and its clients, as we focus on planning and protecting our clients' retirements in many ways that other advisors do not. This includes specific planning strategies and protocols focused on the accumulation, decumulation and legacy planning phases of retirement. By having passed the curriculum to be designated an RICPR®, Steve now joins our founder (and Steve's Dad), Mike Hengehold, as being uniquely credentialled to handle your retirement planning needs.

Kevin Hengehold - Won Sierra Club's "Volunteer of the Year" Award

Kevin, our sustainability and marketing director, spends his spare time volunteering for a number of worthy causes. One of those causes is the local Sierra Club. At their annual Volunteer Dinner, Kevin was honored with the "Super Cup" as the Volunteer of the Year for his work on energy issues, transit policy, decreasing plastic waste, creating more equitable sewer rates, and working with the Young Professionals group to schedule a tree planting in Lower Price Hill. Kevin, a degreed engineer with master's degrees in solar energy and public administration recently oversaw the design and installation of HCM solar array which now supplies most of our electrical needs.

"I'm extremely grateful for this award," Kevin said. "I've found this work to be very meaningful, and it's deeply gratifying to be recognized for it. I look forward to continuing to work on these causes in the future."

HFG Proud to Support Aubrey Rose Foundation

The Hengehold Financial Group (the joint effort of HCM Wealth Advisors and HG CPAs) is proud to support several local charities. Recently, a number of our members attended the Aubrey Rose Annual Gala, "Let's Dance for the Heart of it." We had fun at the masquerade ball, danced the night away, and the event helped raise just under $100,000 for children with life-threatening medical conditions.

The Aubrey Rose Foundation provides educational scholarships for students that have made an impact on the people around them, helps families with financial needs because of their children's medical expenses, and brightens the lives of sick children at the local Children's Hospital by organizing toy buying and holiday parties. The Foundation also promotes educational awareness about the need for organ donations, organizes dinners for the Ronald McDonald House families, and helps to provide heart procedures to children in the U.S. and developing countries.

We encourage you to learn more about the great work the Aubrey Rose Foundation is doing, and if you can, support this worthy cause.

This newsletter provides financial and tax information to clients and friends of HCM Wealth Advisors. This information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.