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Retirement Planning Insights

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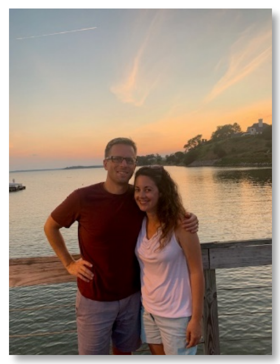
Up Front

Family vacation and Benjamin Brandt

We took a family trip in early-July to a resort on the James River in Virginia. It was the first time I took my kids on jet skis. One of them absolutely loved it while the other was slightly horrified, particularly when we stopped out in the open water. She was convinced a shark was going to jump up and eat us. What did I do to calm her fear??? I stopped the jet ski multiple times so I could dangle my foot in the water as bait! Thankfully no sharks attacked us…I would have felt really dumb if that happened.



Also in July, Benjamin Brandt invited me on an episode of his retirement planning podcast, **Retirement Starts Today Radio,** to answer questions about taxes in retirement. The questions came from his show's listeners and members of my Facebook group, **Taxes in Retirement.**

We had a great time chatting about Required Minimum Distributions, Roth IRA withdrawal rules and Medicare premium surcharges. Super fun stuff! You can check out the episode by clicking on the image below. And if you don't already, I highly recommend subscribing to his show. It's one of the best retirement planning podcasts out there!

I hope you have a great August!

-Andy

Retirement Planning News

Preparing to retire earlier than expected

On July 23, Forbes published an article, **How to Prepare to Retire Earlier Than You Planned.**

The article summarizes the things you should consider if you're faced with having to retire earlier than expected. This scenario is especially relevant now as many companies look to reduce expenses and workforces due to the economic impacts of the COVID-19 pandemic.

If you experience an involuntary early-retirement, or are given the option to retire earlier than you planned, be sure to carefully consider the following:

Social Security – while your immediate reaction may be to start Social Security as soon as your paycheck stops, be sure to weigh all the pros and cons of claiming Social Security early. The longer you wait (up until age 70), the larger your payment will be, for life, when you do start it. Furthermore, Social Security is likely to be your only source of guaranteed income that will increase with inflation each year. Also, if you're married, maximizing your benefit can benefit your spouse, as Social Security pays survivor benefits to widow(er)s.

Early-retirement packages – If you're presented with a voluntary separation package from your employer, don't automatically accept it without carefully reviewing it. Furthermore, some packages may be negotiable, so don't assume it's take-it-or-leave-it. For example, will the package include an extension of healthcare benefits until you're 65 and eligible for Medicare??? If not, see if you can negotiate to have that added, as private health insurance can be a real budget buster if you don't properly plan for it.

Be aware of your expenses – Good retirement financial planning starts with mapping out your current and expected expenses. If you don't put in the time now to know what your expenses are, you'll be flying blind when trying to figure out if you're able to stop working. If you just guess and think you'll need $50k of income per year in retirement but then realize after the fact that you're actually spending $100k per year, you'll run a much higher risk of running out of money in retirement.

Proper financial planning for retirement has a lot of moving parts: Social Security, pensions, investments, medical and health planning, housing considerations, estate planning, taxes, etc. If you'd like assistance in considering your early-retirement options, we'd love to assist! **Contact Us** to set up a complimentary introductory call.

Practical Retirement Planning

What's the difference between Mutual Funds and ETFs?

You've probably heard of mutual funds before. And perhaps you've heard of exchange traded funds, or ETFs, too. Both are pooled investment vehicles that let you invest in a single fund that can indirectly provide you ownership of hundreds of individual underlying stocks or bonds.

Mutual funds and ETFs both provide an easy and relatively inexpensive way to get diversified investment exposure. However, there are a handful of important differences between them. When deciding whether mutual funds or ETFs would be better for your investing needs, consider the following:

Investment strategies – If you're looking for an "active" investment strategy – one where the fund's portfolio managers look to pick individual securities they think will outperform the broader financial market(s) – you'll likely have to use mutual funds. ETFs almost exclusively use “passive” investment strategies – where the fund simply seeks to replicate the holdings of a particular index or sector.

Fees – Both mutual funds and ETFs have ongoing annual fees called “expense ratios.” In the case of passive investment strategies, such fees are usually smaller than for active investment strategies, as passive strategies are less work and resources to implement. In addition, mutual funds may also have 12b-1 fees, which are used to pay for the funds’ marketing and distribution expenses. Also, some mutual funds may require you to pay a sales commission known as a “load.” ETFs do not have 12b-1 fees or sales loads.

Trading - Mutual funds are bought directly from the fund company that issues them. And when you want to liquidate some or all of your mutual fund holding, you directly redeem it from the fund company. ETFs trade like stocks, on a stock exchange, through a broker.

Valuation – Mutual funds are priced only once a day - at the close of the day - when the fund’s Net Asset Value, or NAV, is calculated. A mutual fund’s NAV is simply its prorated share of the fund’s total assets minus its total liabilities. ETFs are priced throughout the trading day and their prices are determined by the market’s supply and demand between buyers and sellers.

Taxation – Mutual funds often pass through capital gains each year from positions sold within the fund. Even if you own the fund the entire year without selling any of it, you still may involuntarily get some capital gains on which you’ll have to pay tax, if you hold the fund in a normal taxable brokerage account. ETFs rarely pass through capital gains, which makes them more tax-efficient if held inside a normal brokerage account.

For more information, watch my recent YouTube video, **The Differences Between Mutual Funds and ETFs.**

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