Emerald Spectrum Advisory

The January Newsletter

Tips for Targeting Your Retirement Savings Goal

What if you're saving as much as you can, but still feel that your retirement savings goal is out of reach? As with many of life's toughest challenges, it may help to focus less on the big picture and more on the details.

Regularly review your assumptions

Whether you use a simple online calculator or run a detailed analysis, your retirement savings goal is based on certain assumptions that will, in all likelihood, change. Inflation, rates of return, life expectancies, salary adjustments, retirement expenses, Social Security benefits — all of these factors are estimates.

That's why it's important to review your retirement savings goal and its underlying assumptions regularly — at least once per year and when life events occur. This will help ensure that your goal continues to reflect your changing life circumstances as well as market and economic conditions.

Break down your goal

Instead of viewing your goal as ONE BIG NUMBER, try to break it down into an anticipated monthly income need. That way you can view this monthly need alongside your estimated monthly Social Security benefit, income from your retirement savings, and any pension or other income you expect.

This can help the planning process seem less daunting, more realistic, and most important, more manageable. It can be far less overwhelming to brainstorm ways to close a gap of, say, a few hundred dollars a month than a few hundred thousand dollars over the duration of your retirement.

Stash extra cash

While every stage of life brings financial challenges, each stage also brings opportunities. Whenever possible — for example, when you pay off a credit card or school loan, receive a tax refund, get a raise or promotion, celebrate your child's college graduation (and the end of tuition payments), or receive an unexpected windfall — put some of that extra money toward retirement.

Reimagine retirement

When people dream about retirement, they often picture exotic travel, endless rounds of golf, and fancy restaurants. Yet people often derive happiness from ordinary, everyday experiences such as socializing with friends, reading a good book, taking a scenic drive, and playing board games with grandchildren.

While your dream may include days filled with extravagant leisure activities, your retirement reality may turn out to be much different, and that actually may be a matter of choice.

Do your best

Setting a goal is a very important first step in putting together your retirement savings strategy, but don't let the number scare you. As long as you have an estimate in mind, review it regularly, break it down to a monthly need, and increase your savings whenever possible, you can take heart knowing that you're doing your best to prepare for whatever the future may bring.

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The SECURE Act Offers New Opportunities for Individuals and Businesses

The SECURE Act (Setting Every Community Up for Retirement Enhancement Act) is major legislation that was passed by Congress as part of a larger spending bill and signed into law by the president in December. Here are a few provisions that may affect you. Unless otherwise noted, the new rules apply to tax or plan years starting January 1, 2020.

If you're still saving for retirement

To address increasing life expectancies, the new law repeals the prohibition on contributions to a traditional IRA by someone who has reached age 70½. Starting with 2020 contributions, the age limit has been removed, but individuals must still have earned income.

If you're not ready to take required minimum distributions

Individuals can now wait until age 72 to take required minimum distributions (RMDs) from traditional, SEP, and SIMPLE IRAs and retirement plans instead of taking them at age 70½. (Technically, RMDs must start by April 1 of the year following the year an individual reaches age 72 or, for certain employer retirement plans, the year an individual retires, if later).

If you're adding a child to your family

Workers can now take penalty-free early withdrawals of up to $5,000 from their qualified retirement plans and IRAs to pay for expenses related to the birth or adoption of a child. (Regular income taxes still apply.)

If you're paying education expenses

Individuals with 529 college savings plans may now be able to use account funds to help pay off qualified student loans (a $10,000 lifetime limit applies per beneficiary or sibling). Account funds may also be used for qualified higher-education expenses for registered apprenticeship programs. Distributions made after December 31, 2018, may qualify.*

If you're working part-time

Part-time workers who log at least 500 hours in three consecutive years must be allowed to participate in a company's elective deferral retirement plan. The previous requirement was 1,000 hours and one year of service. The new rule applies to plan years beginning on or after January 1, 2021.

If you're an employer offering a retirement plan

Employers that offer plans with an automatic enrollment feature may automatically increase employee contributions until they reach 15% of pay (the previous cap was 10% of pay). Employees will have the opportunity to opt out of the increase.

Small employers may also benefit from new tax credit incentives. The tax credit that small businesses may take for starting a new retirement plan has increased. Employers may now take a credit equal to the greater of (1) $500 or (2) the lesser of (a) $250 times the number of non-highly compensated eligible employees or (b) $5,000. The previous maximum credit amount allowed was 50% of startup costs up to a maximum of $1,000 (i.e., a $500 maximum credit).

In addition, a new tax credit of up to $500 is available to employers that launch a new SIMPLE IRA or 401(k) plan with automatic enrollment.

These credits are available for three years, and employers that qualify may claim both credits.

*There are generally fees and expenses associated with 529 savings plan participation. Investments may lose money or not perform well enough to cover college costs as anticipated. Investment earnings accumulate on a tax-deferred basis, and withdrawals are tax-free if used for qualified higher-education expenses. For withdrawals not used for qualified higher-education expenses, earnings may be subject to taxation as ordinary income and possibly a 10% federal income tax penalty. Discuss the tax implications of a 529 savings plan with your legal and/or tax advisors; these can vary significantly from state to state. Most states offer their own 529 plans, which may provide advantages and benefits exclusively for residents and taxpayers, including financial aid, scholarship funds, and protection from creditors.

Before investing in a 529 savings plan, consider the investment objectives, risks, charges, and expenses carefully. Obtain the official disclosure statements and applicable prospectuses — which contain this and other information about the investment options, underlying investments, and investment company — from your financial professional. Read these materials carefully before investing.

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Hindsight Is 2020: What Will You Do Differently This Year?

Live within your means

It's easy to want what your friends, colleagues, or neighbors have — and spend money to get those things. That's a mistake. Live within <u>your</u> means, not someone else's.

According to a recent survey, 76% of Americans reported having at least one financial regret. Over half of this group said it had to do with savings: 27% didn't start saving for retirement soon enough, 19% didn't contribute enough to an emergency fund, and 10% wish they had saved more for college.[1]

The saving conundrum

What's preventing Americans from saving more? It's a confluence of factors: stagnant wages over many years; the high cost of housing and college; meeting everyday expenses for food, utilities, and child care; and squeezing in unpredictable expenses for things like health care, car maintenance, and home repairs. When expenses are too high, people can't save, and they often must borrow to buy what they need or want, which can lead to a never-ending cycle of debt.

People make financial decisions all the time, and sometimes these decisions don't pan out as intended. Hindsight is 20/20, of course. Looking back, would you change anything?

Paying too much for housing

Are housing costs straining your budget? A standard lender guideline is to allocate no more than 28% of your income toward housing expenses, including your monthly mortgage payment, real estate taxes, homeowners insurance, and association dues (the "front-end" ratio), and no more than 36% of your income to cover *all* your monthly debt obligations, including housing expenses plus credit card bills, student loans, car loans, child support, and any other debt that shows on your credit report and requires monthly payments (the "back-end" ratio).

But just because a lender determines how much you can afford to borrow doesn't mean you should. Why not set your ratios lower? Many things can throw off your ability to pay your monthly mortgage bill down the road — a job loss, one spouse giving up a job to take care of children, an unexpected medical expense, tuition bills for you or your child.

Potential solutions: To lower your housing costs, consider downsizing to a smaller home (or apartment) in the same area, researching and moving to a less expensive town or state, or renting out a portion of your current home. In addition, watch interest rates and refinance when the numbers make sense.

Paying too much for college

Outstanding student debt levels in the United States are off the charts, and it's not just students who are borrowing. Approximately 15 million student loan borrowers are age 40 and older, and this demographic accounts for almost 40% of all student loan debt.[2]

Potential solutions: If you have a child in college now, ask the financial aid office about the availability of college-sponsored scholarships for current students, or consider having your child transfer to a less expensive school. If you have a child who is about to go to college, run the net price calculator that's available on every college's website to get an estimate of what your out-of-pocket costs will be at that school. Look at state universities or community colleges, which tend to be the most affordable. For any school, understand *exactly* how much you and/or your child will need to borrow — and what the monthly loan payment will be after graduation — before signing any loan documents.

Paying too much for your car

Automobile prices have grown rapidly in the last decade, and most drivers borrow to pay for their cars, with seven-year loans becoming more common.[3] As a result, a growing number of buyers won't pay off their auto loans before they trade in their cars for a new one, creating a cycle of debt.

Potential solutions: Consider buying a used car instead of a new one, be proactive with maintenance and tuneups, and try to use public transportation when possible to prolong the life of your car. As with your home, watch interest rates and refinance when the numbers make sense.

Keeping up with the Joneses

It's easy to want what your friends, colleagues, or neighbors have — nice cars, trips, home amenities, memberships — and spend money (and possibly go into debt) to get them. That's a mistake. Live within *your* means, not someone else's.

Potential solutions: Aim to save at least 10% of your current income for retirement and try to set aside a few thousand dollars for an emergency fund (three to six months' worth of monthly expenses is a common guideline). If you can't do that, cut back on discretionary items, look for ways to lower your fixed costs, or explore ways to increase your current income.

[1] Bankrate's Financial Security Index, May 2019

[2] Federal Reserve Bank of New York, Student Loan Data and Demographics, September 2018

[3] *The Wall Street Journal,* The Seven-Year Auto Loan: America's Middle Class Can't Afford Their Cars, October 1, 2019

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Could you survive a no-spend month?

Would you take on a 30-day challenge to spend money only on necessities such as rent, utilities, and groceries? During a no-spend month, many common activities — including dining out, buying movie or concert tickets, and shopping for clothes — are avoided at all costs.

The idea behind a 30-day challenge is that the time period is just long enough to help change bad habits without seeming intolerable. If frugality isn't normally your forte, closely scrutinizing your spending could reap hundreds of dollars in savings. More important, it could help identify ways you might be wasting money on a regular basis.

Start by setting a positive goal for the money. Will you use the extra savings to pay down credit card debt or build up your emergency fund?

Here are some other ways to prepare for a successful challenge.

Time it right. Periods that include major holidays, planned vacations from work, and family birthdays are probably not the best for taking on this type of household experiment. On the other hand, it could be ideal to begin the new year with a "fiscal fast."

Establish rules. Take your fixed expenses (i.e., rent/mortgage, utilities, phone bill, insurance payments) into account when planning your no-spend month. Evaluate your typical monthly discretionary spending to figure out where you can reduce or eliminate your spending for the month.

Plan to break patterns. Fill up your freezer and pantry with groceries and collect ideas for easy homemade meals. Steer clear of your personal spending triggers, which could mean staying off the Internet or waiting until later to meet up with friends who are big spenders.

Seek out free and fun entertainment. You don't have to stay home for an entire month. Spend the day visiting a public park or beach, or look for free concerts, outdoor movies, art festivals, workshops, and other special events hosted by community groups.

Stay focused. When you get tempted to spend, remember your goal for the money you've saved. Keep a record of your progress to have a tangible reminder that your efforts will pay off.

How can I improve my credit report?

Most lenders use credit report information to evaluate the creditworthiness of potential borrowers. Borrowers with good credit are presumed to be more creditworthy and may find it easier to obtain a loan, often at a lower interest rate.

You can do a number of things to help improve what's on your credit report, including the following.

Pay bills on time. Your credit report provides information to lenders regarding your payment history. For the most part, a lender may assume that you can be trusted to make timely monthly debt payments in the future if you have done so in the past. Consequently, if you have a history of late payments and/or unpaid debts, a lender may consider you to be a high credit risk and turn you down for a loan.

Limit credit inquiries. Each time you apply for credit, the lender will request a copy of your credit report. The lender's request then appears as a "hard inquiry" on your credit report. Too many of these inquiries in a short amount of time could be viewed negatively by a potential lender, since it may indicate that the borrower has a history of being turned down for loans or has access to too much credit.

Build a credit history. You may have good credit, but not enough of it. As a result, you may need to build up more of your credit history before a lender deems you worthy to take on new debt.

Correct errors on your report. Uncorrected errors on a credit report could make it difficult for a lender to accurately evaluate creditworthiness and could result in a loan denial. If you have errors on your credit report, it's important to correct your report by disputing inaccurate or incomplete information,

Finally, if you are ever turned down for a loan, you can find out why. Under federal law, you are entitled to a free copy of your credit report as long as you request it within 60 days of receiving notice of a company's adverse action against you. Federal law also entitles you to a free annual credit report from all three credit reporting agencies (Experian, Equifax™, and Trans Union™). You can obtain this report by visiting AnnualCreditReport.com.

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