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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 even think about 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 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 of percent, and increase your inflation expectations. Don't expect to draw more than 3% to 4% annually from your retirement investments. Now, can you

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Frankly Speaking

Tuesday's losses (Sept. 13, 2022) represented the ninth-worst daily loss for America's wealthiest, eclipsing what they lost in a single day two and a half weeks ago. -Financial Advisor IQ Sept. 14, 2022

The Dow and S&P 500 fell sharply last September and in 2020, even though the broader market rallied both years. That doesn't mean stocks are doomed to finish this September in the red, of course. Stocks rallied in each of the three Septembers prior to the pandemic.

But here's another potentially ominous sign: This is a midterm election year. The Dow has fallen in eleven out of the last eighteen premidterm Septembers going back to 1950, according to The Stock Trader's Almanac.

While recent market volatility has been severe, it can go either way — up or down. All we need are some 'up' days to level things off for investors. If you would like to work toward this end, please contact me via phone: 973-515-5184. ❍❍❍

Should You Retire?

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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, such as reducing how often you dine out or taking your lunch to work. 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 than it did even a few years ago, 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. ❍❍❍

Raising Financially Responsible Children

Although you'll have to wait a good while before they'll thank you for it, teaching your children to be financially responsible is one of the best gifts you can give them. Fortunately, most of the lessons can begin while they are still very young.

Lesson #1: Appreciation for the value of money — Money has to be earned — and when it is, they better appreciate its value. Those of us who had a job like babysitting or mowing lawns in the summertime might remember when a new video game was no longer just $50 of Mom and Dad's money, but the equivalent to 10 hours of work. Perhaps you recall hesitating to purchase a soda for $1.50 and opting to visit the water fountain because you were saving your allowance. Prices are just abstract numbers until time and effort has been spent to generate those coins and bills.

Consider forming an allowance-for-chores policy to teach your children about money management early on. You pay for the basics, but if they want the extras, they will have to save up and use their own money. It's an important lesson on its own but will also help them focus their priorities and feel a sense of pride in accomplishment.

Lesson #2: Saving the money they earn — Teach them to save a portion of what they earn from the get-go. This habit will make it much easier for them to not spend their entire paycheck as well as leave their savings intact when they are on their own. You may need to encourage them firmly at first, with a fixed percentage or minimum amount. As they grow older and their savings increase, they will need less guidance as they come to appreciate the readiness of available funds for a special purchase.

Lesson #3: Setting goals and staying on track — Helping your children set short- and long-term goals is a key part of getting them to stick to a savings strategy. Most children are not that excited by slowly rising dollar amounts, but when a certain dollar amount represents a desperately desired new toy, their focus sharpens considerably. Make a chart to show them how much they would need to save over a specific amount of time to have enough for their goals… and make sure to reward them when they stay on track.

Lesson #4: The nitty-gritty of a balanced budget — Show your children the day-to-day workings of adult finances. Go through the line items on your budget (with real or simplified amounts) and reveal your own percentage of savings for short- and long-term goals. You can explain the benefits of autopay, managing a bank account online, minimum balances and fees, and even how to fill out a check (some landlords and city utilities still require checks for bill payment). It may seem mundane to you, but depending on the child's age, the desire to be grown up could increase their interest level and make abstract concepts more understandable.

Lesson #5: Understanding debt and loans — When young adults are first exposed to credit cards, they may not understand that purchasing things on credit or taking out a loan ends up costing more money. Explaining how interest can work for you (in a savings account) and against you (in a loan or on credit) can keep them from making bad decisions. Above all, modelling financial responsibility in your own life can help them form the basis for a lifetime of good money habits. ❍❍❍

10 Ways to Boost Savings

Saving money doesn't have to be hard. By embracing some simple lifestyle changes or taking full advantage of tax perks and other savings incentives, you can easily boost the amount of cash you save. Here are some ideas to get you started.

✔ **Take advantage of savings perks:** If you contribute pretax earnings to a 401(k) plan or IRA, you're saving money beyond your actual contribution amounts. Say your monthly gross pay is $5,000 per month. You currently don't contribute to a 401(k) plan. You decide to start saving 3% each month (or $150) into your employer's 401(k) plan. This $150 comes out of your paycheck pre-tax, which means that even though you're saving $150, your paycheck only shrinks by $112 — in other words, you've saved $38 a month on taxes, or $456/year.

Another way to save? Make sure that you're contributing enough to get your employer match, since this is a great way to increase your savings without actually shrinking your take-home pay.

✔ **Get your benefits:** Your employer may offer benefits that could save you money. Flexible spending accounts are common benefits that allow you to set aside pretax income for out-of-pocket medical expenses. Also common are programs for commuters that let you pay for parking or public transit on a pretax basis. Some employers even offer discounts on gym memberships or other services. Take the money you save by participating in these programs and use it to boost your savings.

✔ **Cut recurring expenses:** Monthly subscription boxes, streaming entertainment services, gym memberships that you don't use — these regular costs can add up. While some may be worthwhile, trimming the fat in the area of recurring expenses can help you save more. Keep what you use and drop the ones you don't use.

✔ **Buy generic:** Do you always buy the name-brand version of the product? If so, you might be wasting money. In many cases, the generic version of a product is just as good — if not identical — as the pricey, branded version.

✔ **Make it automatic**: Not sure where your money goes each month? Automate your savings so that you don't have to think about setting aside extra cash.

✔ **Be generous:** If you itemize your taxes, make sure you're keeping track of all your charitable donations — from checks you write to the value of goods donated.

✔ **Cut one habit**: Do you indulge in daily soda or an expensive coffee drink? Cut the habit (or, if that's too hard, limit it to two or three times a week). Set aside the money you would have spent.

✔ **Repair, don't replace:** It's easy to toss a slightly worn or damaged item and buy a new one to replace it. But many of the items we throw out can actually be repaired. By purchasing quality items and taking good care of them, you'll likely save yourself money in the end.

✔ **Use coupons:** Clipping coupons may seem distinctly old school. Fortunately, you can now take advantage of coupon savings without having to spend an entire Sunday morning sorting through newspaper inserts. When shopping online, always do a quick search for online promo codes. Or sign up for your favorite grocery store's rewards program.

✔ **Review your insurance premiums:** Raising deductibles or bundling policies could save you a bundle. Also, make sure you actually need the insurance you have — cell phone insurance and warranties are often a waste of money. Finally, make sure you're getting all the discounts you qualify for, like car insurance premium reductions for being a safe driver or homeowners insurance discounts for having an alarm system.

Please call for help analyzing your budget and identifying ways to cut your expenses and save more of what you earn. ❍❍❍

Get Your 401(k) Plan on Track

For many people, their 401(k) plan represents their most significant retirement savings vehicle. Thus, to make sure you have sufficient funds for retirement, you need to get your 401(k) plan on track. To do so, consider these tips:

✔ **Increase your contribution rate.** Strive for total contributions from you and your employer of approximately 10% to 15% of your salary. If you're not able to save that much right away, save what you can now and increase your contribution rate every six months until you reach that level. One way to accomplish that is to put all pay increases immediately into your 401(k) plan. At a minimum, make sure you're contributing enough to take advantage of all employer-matching contributions.

✔ **Rebalance your investments.** Don't select your investments once and then ignore your plan. Review your allocation annually to make sure it is close to your original allocation. If not, adjust your holdings to get your allocation back in line. Selling investments within your 401(k) plan does not generate tax liabilities, so you can make these changes without tax ramifications. Use this annual review to make sure you are still satisfied with your investment choices, and your allocation is still appropriate for your situation. Avoid common mistakes made when investing 401(k) assets, such as allocating too much to conservative investments, not diversifying among several investments, and investing too much in your employer's stock.

✔ **Don't raid your 401(k) balance.** Your 401(k) plan should only be used for your retirement. Don't even think about borrowing from the plan for any other purpose. Sure, that money might come in handy to use as a down payment on a home or to pay off some debts. But you don't want to get in the habit of using those funds for anything other than retirement. Similarly, if you change jobs, don't withdraw money from your 401(k) plan. Keep the money with your old employer or roll it over to your new 401(k) plan or an individual retirement account.

✔ **Seek guidance.** It is important to manage your 401(k) plan carefully to help maximize your future retirement income. If you're concerned about the long-term future, call for a review of your 401(k) plan. ❍❍❍

Insurance Basics

It's not uncommon to purchase insurance in a haphazard manner. You are offered a policy that seems like a good one, so you purchase it and never review it again. Then you buy another policy a couple of years later. In the end, you haven't systematically evaluated your insurance needs, so you may find yourself overinsured in some areas and underinsured in others. To help prevent this from happening, consider these tips:

✔ **Review all your policies every couple of years.** You want to make sure you have adequate coverage in all major areas, while also evaluating whether revisions are needed due to changes in your personal circumstances.

✔ **Purchase insurance wisely.** The primary purpose of insurance is to protect you from financially devastating losses, not from every minor loss you might incur. Thus, review all the riders and options in your policies, only retaining those important to you.

✔ **Avoid insurance you don't need.** Don't purchase insurance for minor items you can easily cover yourself. When reviewing your policies, make sure you're not paying for duplicate coverage. ❍❍❍

Financial Thoughts

While about three-quarters of recent retirees still have access to defined-benefit plans, a study by the researchers at the Center for Retirement Research at Boston College predicts that recent retirees with no defined-benefit plans are at greater risk of depleting their assets by age 85. The actual pace of the drawdown will be affected by other factors. Home ownership is associated with slower drawdowns due to the lack of rental payments. Those who are college-educated also tend to draw down their assets slower (Source: Center for Retirement Research at Boston College, September 2021).

In 2020, 28% of people had a household income below $25,000, 17% had a household income of $25,000 to $49,000, 25% had a household income between $50,000 and $99,999, and 29% had an income of $100,000 or more. Approximately 42% of Hispanic families and 41% of black families had an income under $25,000 (Source: Federal Reserve, 2021).

Also in 2020, 8% of married people considered themselves doing at least okay financially, compared to 67% of single people (Source: Federal Reserve, 2021). ❍❍❍