Creating Customized Strategies
For Achieving Your Financial Goals

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OCTOBER 2022

Tips for Getting Your Finances in Order

If you're serious about pursuing your financial goals, you need to get your finances in order. Some tips to help in that process include:

✔ **Get organized.** It's difficult to assess how much progress you're making toward your goals if you don't know basic facts like how much your net worth increased during the past year, how you are spending your income, or how well your investments have performed. Organizing your finances will assist in tracking this information.

✔ **Budget your expenditures.** While many people dread the process of analyzing and budgeting expenditures, inefficient and wasted expenditures are often major obstacles to saving for financial goals. Analyzing your expenses will help you find ways to reduce spending and increase your savings.

✔ **Develop explicit written financial goals.** Goals help set our financial priorities and provide motivation for reducing spending and saving for the future. Quantify your ultimate goal and interim goals so your progress can be tracked.

✔ **Pay yourself first.** If you wait until the end of the month to see how much money is left over for saving, you'll probably find that the answer is nothing. It's often easier to pay yourself first, and then find ways to reduce spending to pay the rest of your bills.

✔ **Establish an emergency cash reserve.** This will give you funds to deal with short-term emergencies, such as a temporary job loss, a short-term disability, a major home repair, or a large medical bill. How much you need in the reserve will depend on your age, health, job outlook, and ability to borrow quickly.

✔ **Get your debt under control.** Take steps to reduce your consumer debt as much as possible — any interest payments are just reducing the amount available for saving. There are a variety of strategies you can use to either reduce your debt or lower the cost of that debt.

✔ **Invest automatically.** One of the best ways to invest consistently is to make investing

Continued on page 2

Your 401(k) Contribution Amount

Before deciding how much to contribute to your 401(k) plan, find out three key figures:

What is the maximum percentage of your pay that can be contributed? The maximum legal contribution limit in 2022 is $20,500 plus an additional $6,500 catch-up contribution for participants age 50 and over, if permitted by the plan. However, most employers set limits in terms of a percentage of your pay to comply with government regulations. This limit ensures the plan does not discriminate in favor of highly-compensated employees.

How much of your contribution is matched by your employer? Employers are not required to provide matching contributions, but many do. A common match is 50 cents for every dollar contributed, but many other variations also exist.

Up to what percentage of your pay does your employer match? Most plans only match contributions up to a certain percentage of your pay. For instance, the plan may only match contributions up to a maximum of 6% of your pay. ❍❍❍

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FR2022-0314-0014

Finances in Order

Continued from page 1

automatic. Make arrangements to have a specific amount deducted from your checking or saving account periodically and transferred to an investment account. *(Keep in mind that an automatic saving plan, such as dollar-cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investment, consider your financial ability and willingness to continue purchases through periods of low price levels.)*

✔ **Develop an investment strategy.** Your strategy will depend on a variety of factors unique to your situation, including your risk tolerance, return expectations, investment period, and investment preferences. Developing an investment strategy requires evaluating many factors, but it can give you a well-thought-out strategy to help pursue your long-term goals.

✔ **Assess your insurance needs, including life, health, disability, long-term care, homeowners, automobile, and personal liability.** Over time, your insurance needs are likely to change. Insurance companies offer innovations and riders that might be applicable to your situation. Reevaluating your insurance can lead to lower premiums with coverage better suited to your situation.

✔ **Take active steps to reduce your taxes.** There are a variety of strategies that can help you reduce your income taxes, thus freeing money for saving. The key is to review those strategies now, so you have plenty of time to implement them.

✔ **Review your estate plan.** If it's been a few years since you've reviewed your estate plan, take time to go over your documents to make sure they still reflect your wishes for your estate's disposition. If you don't have an estate plan, get one in place.

While many of these tips may sound familiar, it is the rare individual who takes advantage of all of them. If you'd like help putting these tips into practice or would like to discuss your finances in more detail, please call. ❍❍❍

Are You Saving Enough to Retire Well?

Are you saving enough to retire well? It depends on what your definition of retire well is.

So how much might the average worker *actually* need?

Assume a current income of $50,000 per year, an 8% return on your savings before retirement, 35% of your portfolio invested in stocks after retirement, inflation of 3% per year, and a life expectancy of 90 years. Not counting any other forms of retirement income (Social Security or pension benefits, for example), you'll need between $1.3 and $2.5 million in your account when you're ready to retire.

That's a big range and the decisions you make can dramatically affect how much you need to save for retirement. If you're 50 when you start saving, for example, you can cut the total amount you'll need to save per month almost in half by delaying your retirement by five years. If you really want to retire at age 65, you can cut how much you need to save substantially if you scale back the retirement lifestyle you're planning.

To determine how much money you'll need to have saved for your retirement, you'll need to consider:

1. How much do you already have saved? If you're 50 years old and you already have $250,000 in your retirement account, you won't have to save nearly as much as if you had no nest egg.

2. How many more years do you plan to work? The longer you are saving and earning returns on those savings, the more money you'll have when you're ready to retire.

3. What is your estimated Social Security benefit? Most Americans will likely receive some sort of benefit from the program. It's important to remember, however, that Social Security is just a supplement to your other retirement savings.

4. How much income will you need in retirement? A huge factor that will determine how you answer this question is whether you'll have a mortgage payment when you're retired. For most people, a mortgage payment makes up about a quarter of their pretax monthly income. So if you plan to have paid off your house by the time you retire, you can keep all of your other expenses the same and still only require 75% of the income you needed when you had a mortgage payment.

Of course, you'll also want to think about the activities you want to pursue. If it's traveling the world, you'll need more income than if your plans are to stay home and golf or spend more time with the grandkids down the street.

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

401(k) Mistakes to Avoid

If you are participating in your employer's retirement plan, you are headed down the right path. But there are 401(k) mistakes that can derail an investor's retirement plan. Here are some of the biggest mistakes and how you can keep things on track:

Not Knowing How Much You Need to Save for Retirement

If you don't have a goal for how much you need to save to live comfortably during retirement, you will probably fall short. The first step is to determine how you want to spend your retirement. Most financial experts agree that you will need at least 70–90% of your preretirement income to live comfortably. But don't just use a rule of thumb; make sure to review your specific situation.

Not Saving Enough

Most experts suggest that you save 10–20% of your income for retirement. Because many companies auto-enroll new employees into their 401(k) plans using a default dollar amount, many employees fail to adjust the dollar amount and end up not saving enough. Others may feel they just don't earn enough to contribute 10% to 20% of their income due to competing demands on their money. If that is the case, at least try to save enough money to get the company match.

Not Paying Attention to Fees

There are typically three types of fees associated with your 401(k) plan, including administration fees, investment fees, and service fees. These fees can eat into your retirement account's potential growth. To understand how much you are paying in fees and expenses, carefully review your regular statements. Also, at the end of the year, you should receive a statement that will show how much you paid in 401(k) fees.

If you have an old 401(k) plan from a previous employer, you should compare that plan's fees to your current 401(k) plan to see if rolling it over to your new plan makes sense. You should also consider an IRA rollover so that you can select the best investment options.

Too Much Stock in Your Company

Having company stock in your 401(k) plan may come with significant growth potential, but it may also increase the volatility of your retirement portfolio. If your 401(k) plan includes company stock, make an assessment of your risk. Most experts agree that your portfolio should not have more than 10% to 15% of any one stock.

Not Rebalancing Your Portfolio

The reason for asset allocation is to balance your portfolio across asset classes such as stock, bonds, or cash so that if one is performing poorly, others will help offset losses.

Over time, however, your investments may drift from your original asset allocation.

You should review your portfolio on a regular basis to determine if it needs rebalancing. Some 401(k) plans provide an automatic rebalancing feature that can do the work for you. If you do not have the time or inclination to rebalance your portfolio, you may want to invest in target-date retirement funds or asset allocation funds.

Not Contributing Enough to Get the Company Match

If your employer matches any percentage of your contributions, you should at least contribute enough to get the company match. Look at your benefits package to determine how much your employer will contribute and take full advantage of this benefit.

In 2022, you can contribute up to $20,500 in your 401(k) or up to $27,000 if you are age 50 or older.

Not Considering a Roth 401(k)

With a traditional 401(k), you receive the tax benefits up front because the contributions lower your taxable income during the current tax year. When you begin taking distributions from your 401(k) in retirement, you will then have to pay ordinary income tax on the withdrawals. With a Roth 401(k), you make contributions with after-tax dollars and your earnings grow tax-free, meaning that you will not have to pay taxes when you withdraw your money. Typically, people who don't need to lower their income today or believe they may be in the same or higher tax bracket during retirement benefit from a Roth 401(k) plan.

Please call if you'd like to discuss this topic in more detail.
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5 Reasons to Start Saving

If you're interested in getting started with savings, or if you want to save more, here are five reasons to stay motivated.

1. You'll be prepared for emergencies. Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small unexpected expenses, such as emergency room co-pays, minor car repairs, or a broken furnace. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises. The result? A downward financial spiral that can be difficult to pull yourself out of.

2. You'll be more independent. Having savings gives you more flexibility and independence. With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Plus, without savings, you're living on the financial edge, and you're more likely to find yourself stuck in situations that you may not be satisfied with. Committing to savings today, even if it's just a small amount, will start to give you the freedom to make different choices.

3. You'll be able to reach your goals. We all have goals. Whatever your dreams, they likely have one thing in common — you're probably going to need some money if you want them to become a reality. Few of those dreams are achievable if you don't save for them.

4. You'll be able to earn more money. Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving, rather than spending. And because of the power of compounding earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

5. You'll be happier. No one wants to suggest money is the only thing that can make us happy. But there's also evidence that *saving* money, even in small amounts, can make you happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to more unhappiness.

Convinced that saving for the future is the right thing to do? Please call to discuss how you can make regular saving part of your financial plan. ❍❍❍

Asset Correlation

Asset correlation is the measure of how assets move in correlation to one another. Highly correlated assets move in the same direction at the same time, while negatively correlated assets move in the opposite direction from one another.

The theory of asset correlation is that you can reduce risk and increase returns by investing in asset combinations that are not correlated. The basic rule has been that equities go up when economies do better, and bonds do better when economies go down.

Having a mix of bonds and stocks in portfolios has always been a basic investing concept, but today's market is not as predictable, and the way they move is changing. Bond markets have become more highly correlated to equities.

With correlations increasing among equity classes, investors need to be diligent about their portfolio strategies to ensure sufficient diversification. You may want to do some research on your portfolio to see how your asset correlation has shifted over time, so that you can focus your rebalancing efforts on these fluctuations. ❍❍❍

Financial Thoughts

Many workers do not understand the expenses incurred when participating in a workplace retirement plan. A Government Accountability Office (GAO) analysis found that 45% of workers were unable to discern the investment fee on their 401(k) plan from the information provided in disclosures. And 41% of participants falsely believed that they did not pay any fees on their 401(k). According to the GAO, participants with a high school education or less understand fee information less well than participants with a master's or professional degree or higher. And those with less than $100,000 in savings and investments understand fee information less well than those with savings of $100,000 or more (Source: GAO Report, July 2021).

The average fee for mutual funds and exchange-traded funds (ETFs) decreased to 0.41% in 2020, a 7% decrease from 2019. Fees fell in 2020 for both actively and passively managed funds. The decrease in average fees was driven by large net outflows from expensive funds and share classes and flows into cheaper ones (Source: Morningstar, August 2021). ❍❍❍