LOCKER FINANCIAL SERVICES, LLC

FEE ONLY FINANCIAL PLANNING

3 Claridge Dr., Suite 2 • Verona, NJ 07044
117 Kendrick Street, Suite 300 • Needham, MA 02494
973-256-2555 • 508-663-4878

LAUREN LOCKER
CERTIFIED FINANCIAL PLANNER™ practitioner
Registered Investment Advisor
Lauren@lockerfinancial.com

ANDREW CHAN
CERTIFIED FINANCIAL PLANNER™ practitioner
Certified Investment Management Analyst™ practitioner
Andrew@lockerfinancial.com

SUMMER 2024

Watch Out for Retirement Derailers

To make sure your retirement isn't derailed, consider these tips:

1. Start saving now. Because of the power of compounding, starting to save for retirement just a few years earlier can make a huge difference at the end.

For example, a 30-year-old puts $400 per month into a tax-deferred retirement plan (like a 401(k) plan), which generates $1,015 per month in retirement income for 30 years beginning at age 65. For the 35 years that the individual is saving (from age 30 to 65), she will have contributed $168,000 to the account. A 45-year-old makes the same amount in total contributions ($168,000 at a rate of $700 per month) to the same retirement account. Even though she has contributed the same dollar amount, because her savings compounded for 15 fewer years, she has about 20% less during retirement (Source: Ameriprise Retirement Calculator).

2. Save now to spend later. This is where it's critical to make a budget for current expenditures, a retirement budget, and a plan for how to make retirement work. That plan may involve trimming current expenditures, scaling back retirement expectations, or both.

3. Prepare a retirement plan. A retirement plan should be an integral part of your overall financial plan — and no matter what your circumstances, a financial plan is a very important way to decrease the likelihood that your life plans will be derailed by unexpected circumstances that inevitably arise.

Think seriously about things you might want to spend money on before or during retirement and then build that into your retirement plan. Obviously, unexpected circumstances do arise, but if you can anticipate that your children or grandchildren might need help and you are willing to help them, put that into your financial plan.

4. Review the implications of taking Social Security benefits before reaching full retirement age. For people who are near retirement age and lose their jobs, taking Social Security at age 62 probably can seem like a far better idea than trying to get a new job at that age. But

Continued on page 2

Tax Planning Tips

Make a List. To serve as an ongoing reminder, make a list of applicable tax deductions and consider keeping it in plain sight on your refrigerator or office bulletin board.

Stay Organized. Two of the biggest stressors of tax planning are remembering what you spent throughout the year that may qualify as a deduction and locating the receipt. Keep track of deductible expenses, donations, and cash gifts in a designated place.

Do a Mid-Year Financial Review. Change is inevitable, though unfortunately, it's not always easy to anticipate while you're trying to plan ahead for tax season. For this reason, incorporate tax planning as part of your mid-year financial review; accounting for income changes, unanticipated quarterly bonuses, investment gains and losses, or changes in family status can substantially modify your owed taxes or refund.

Don't Go It Alone. Go to a professional who knows all the complex technicalities of tax planning; they can spot oversights, helping to maximize your refund and reduce your risk of audit. ❍❍❍

Copyright © 2024. Some articles in this newsletter were prepared by Integrated Concepts, a separate, nonaffiliated business entity. This newsletter intends to offer factual and up-to-date information on the subjects discussed but should not be regarded as a complete analysis of these subjects. Professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

FR2024-0112-0224

Watch Out

Continued from page 1

it's important to understand that while the government will let you start taking benefits at age 62, it will penalize you for it: for an individual born in 1960 or later who retires at age 62 instead of age 67 (full retirement age), his monthly benefits will be reduced by 30%.

5. Have a candid conversation with your parents or other family members whom you might be caring for in old age. Talk about how they'll want to be cared for and the means they have to pay for such care. Urge them to consider long-term-care insurance.

If you have already been impacted by a retirement derailer — or any other circumstance that has impacted your retirement plan, here are five ways to stay on track:

1. Take advantage of catch-up provisions. If you are 50 or older, you can contribute more tax-deferred income to a 401(k) or IRA (these are so-called catch-up contributions). In 2024, you can contribute $7,500 more to a 401(k) or 403(b) plan and $1,000 more to an IRA.

2. See where you can trim expenses to save more. Boosting your savings to get back on track for retirement might be easier than you think: most of us spend more than we realize on discretionary items like meals out, clothing, travel, and other personal expenditures. Take a hard look at your budget and see where you can cut back — even $100 per month can make a difference in your retirement savings.

3. Evaluate your investment choices. Review your current asset allocation. Many individuals close to retirement pull money out of the stock market, missing out on significant investment opportunities. That said, you want to ensure your asset allocation is appropriate (not too heavy in equities) given your age and target retirement date.

4. Reevaluate your retirement lifestyle. Most financial advisors recommend you replace at least 70% of your pre-retirement income during retirement. So if you planned to spend 85% of your current income in retirement, you might be able to scale back and still retire comfortably.

5. Work longer. When Social Security was created in 1935, the average American 65-year-old man could expect to live to age 78 and the average American woman to 80. Today, the average American 65-year-old man can expect to live to 84.3 and the average American 65-year-old woman to 86.6 (Source: Social Security Administration, 2022). In that context, working five more years might not be such a sacrifice — and it can make a big difference in the retirement lifestyle you can afford. For a 60-year-old who has a retirement account balance of $250,000 today and contributes $2,000 a year, pushing retirement back from age 65 to age 70 would yield an additional $158,410 in total savings (not counting Social Security) — adding $300 per month to the individual's retirement income.

No matter where you're at on the path to retirement, or whether you've been derailed or not, please call to discuss this in more detail. ❍❍❍

Tax-Deferred Compounding

Very few people like to think about income taxes. But that lack of consideration often leads to a lack of understanding. Once you start to understand it better, the more you realize you have more control over how much you pay.

Much of your control depends on the type of strategy that you use. For instance, contributing to your company's 401(k) plan or an IRA will reduce your current year income taxes. Familiarizing yourself with federal and local deductions and credits, then planning accordingly, can save you thousands come tax season. If you discuss your tax situation with a professional, he/she can help you find any areas in which you are missing out on potential savings.

Sometimes your tax strategy can boil down to smart timing. When it comes to major financial transactions, like selling a home or investment, your tax bill is largely affected by the circumstance. For instance, if you purchased a home and lived in it for less than two of the last five years, you will have to pay capital gains tax on your profits from the sale. This tax can be avoided if you stay in the house for a full two years. Knowing this beforehand and planning out life changes in advance (as much as possible) can help you plan out and time these transactions wisely.

Maintaining good tax records is not only essential when it comes to backing up your claims, but also reminds you of what resources you've expended over the past year. Not everything is deductible, but the more records you keep, the better prepared you are to claim and support deductions.

It is important to remember that the decisions you make in life should not be made solely for tax reasons. Of course, you want to minimize the amount you have to pay in income taxes, but any transaction has to be ultimately beneficial for you and your family. Just because one situation is better for your tax bill doesn't mean it is better for you — but understanding the true tax ramifications of your transactions will help you make more informed decisions for your circumstances. ❍❍❍

Paying Off Debt Isn't Saving

Should you save your money or pay off debt? It probably comes as no surprise to hear that it depends. But one thing is certain: paying off debt is *not* the same as saving. Here's why.

The rational objective for all sound financial planning is to increase your net worth. Calculating your net worth is simple: total up the value of everything you own and subtract from that all of your debt.

Net Worth = Assets – Debt

When you pay off debt, it almost always improves one aspect of your financial wellbeing: it lowers your monthly bills. But if you look carefully at the formula for net worth, it's clear that paying off debt doesn't immediately increase your net worth, because it reduces your assets by as much as it reduces your debt. It only helps if you then save the amount you no longer have to send to your creditor.

Higher Priorities Should Come First

Paying off debt can also make your financial situation more precarious. For example, if you deplete your savings to pay off debt, you may be in a worse position to cover your expenses in the event of an emergency. So unless you already have enough tucked away in your emergency fund, you should consider if it makes sense to use any free cash to pay off a debt. And if you have a partner and dependent children, maintaining a life insurance policy sufficient to meet their needs should also be a higher priority than paying off debt.

But let's say you have both of these objectives covered. Does it make sense to be aggressive in paying off your debts? It can. It generally (but not always) comes down to comparing the potential return on your investing choices to the *effective* interest rates you're being charged on your loan.

Compare interest rates. If you're paying a higher rate of interest on a debt than you could earn on an investment, it makes sense to pay off that debt as quickly as you can. Such is typically the case with credit cards, where it's rare the interest rate is less than double digits. Making only the minimum required payment is generally a bad idea, because interest and fees can grow faster than you pay down the principal. At the very least, then, you should try to pay more than the minimum — even if you're not trying to be aggressive in paying down the balance.

If you have money left over at the end of the month, you should consider both trying to save and paying down your debt at the same time. This is especially true when it comes to tax-advantaged savings plans, like individual retirement accounts (IRAs) and 401(k) plans. Contributions to these are often made on a pre-tax basis, which adds to the effective total return you receive. If your employer matches your contributions, you should do all you can to contribute to the maximum match before taking an aggressive stance toward reducing your debt load.

Don't forget the power of compounding. The biggest reason to save *and* pay down debt at the same time is that saving, even relatively small amounts, puts time on your side by harnessing the power of compounding. When you reinvest your returns — whether it's interest, dividends, or capital gains — your money makes more money, and you can reach your long-term goals faster.

Be careful about paying off mortgages. Owning a home free of mortgage debt remains a fond dream that influences many Americans' decisions. It explains why 15-year mortgages seem more appealing to some than 30-year mortgages: not only are the interest rates for 15-year mortgages generally lower, but it takes less time to pay them off, and the accumulated interest you pay is much less.

But it's not necessarily a smart idea to take out a 15-year mortgage because the required monthly payments are generally 20% to 30% higher than the payment on the same principal amount for a 30-year loan. That means you have less free cash flow to devote to saving in a retirement plan, and if you lose your income for an extended period of time, it's harder to keep up with the payments.

On top of that, mortgage interest is generally tax deductible. Finally, the interest rates on mortgages are often among the lowest consumers face. All of this means that paying off a mortgage more aggressively is one of the last things you should consider doing with your money.

In summary, paying off debt has its advantages, but whether it's the right thing for you depends on your broader financial picture, what kinds of debts you have, what interest rates they carry, and what your saving opportunities are. It can take some careful analysis to make the best decision. Please call if you'd like to discuss this in more detail. ❍❍❍

Dreams and Goals: What's the Difference?

It takes a lot of hard work to fulfill your dreams. But we're not just talking about the years of employment you have to put in to afford your dreams. Instead, we mean converting your dream into a plan to make it come true.

The first step is to recognize the difference between a dream and a goal. A dream is a vision that inspires you to work hard, smart, or both. As pleasant as the dream may be, it lacks specificity. Specifics are for goals and plans of action.

A financial goal and plan of action sounds like this: I'm going to retire when I'm 65 years old, in a lifestyle that costs $150,000 a year in today's dollars, and maintain it, adjusted for inflation, for as long as I live. Of that amount, $120,000 is going to come from my personal savings, which means I need to save $1.7 million. And that means I have to save $40,000 a year and my savings has to earn 8% a year.

To summarize: a financial goal consists of a date (1) by which time you need a specific amount of money (2) that lasts a specific amount of time (3). The action plan calls for: 1) setting aside a specific amount of money, 2) investing it to achieve a specific rate of return, and 3) monitoring your progress and making the necessary course corrections to remain on target.

What good goal making comes down to is making fairly reliable projections of what your financial goals are going to cost in the future. The more expertise that's applied to goal formulation, the better the goals will be. After that, the creation of a plan to meet those goals takes even more judgment calls: what is the rate of inflation likely to be between now and when your goal needs to be met; what kind of funding will the plan require; what asset allocation strategy is going to achieve the best balance between the rate of you return you need and the level of risk you're comfortable taking.

The key to achieving your goals is adjusting to the unexpected — those changes in your life and the returns that the financial markets actually experience. If the changes are significant enough, it may take you back to square one — restructuring your goals. Good financial planning isn't a one-time exercise. At its best, it's an iterative exercise that calls for steadiness of vision, calm reactions to new realities, market awareness, and flexibility. Please call if you'd like to discuss this in more detail. ❍❍❍

The Basics of Wash Sale Rules

To reduce their tax liability, many investors will sell stocks that have fallen below their purchase price, claiming them as a capital loss to offset their capital gains on other investments.

There are specific IRS rules on capital losses. One rule you should be aware of is the wash sale rule. With this rule, an investor cannot claim a capital loss on their tax return if the investment in which the loss originated is repurchased within thirty days of the sale.

For example, let's say you purchased a stock at $50 per share, and over the course of several years, the company suffers financial trouble and the stock price drops to $5 per share. You then decide to sell the stock and report it as a capital loss.

Even though you sold the stock, you still feel it has the potential for significant growth, so you decide to repurchase the stock three weeks later. The problem? The wash sale rule kicks in. You now cannot claim it as a capital loss.

Repurchasing a stock you believe in at a much lower price can be a prosperous strategy. The key to executing this strategy successfully is to ensure your timing is right so that you avoid the wash sale rule. ❍❍❍

Financial Thoughts

An estimated 41.8 million people in the U.S. are caregivers for an adult over the age of 50, according to a 2020 survey by the National Alliance for Caregiving (NAC) and AARP. And among millennials, more than one in five now care for an adult.

Due to rising interest rates and low inventory, NAR found that the average income of a homebuyer between July 2022 and June 2023 was $107,000, up from $88,000 the year prior. More and more homebuyers are single women. The share of single women buying homes is almost double that of men. They're also slightly older — a single woman buying her first home is 38 on average, while a single man is 33. Buyers are older. The average first-time homebuyer is 35, up from 29 in the 1980s, but it's older people who are buying up the three-bedrooms after selling their starter homes: NAR found that the median age of a repeat homebuyer last year was 58. In 1981, it was 36.

The share of Americans over age 65 working this year was almost double that of 35 years ago, according to the Pew Research Center (19% in 2023, compared to 11% in 1987). ❍❍❍