FINANCIAL SYNERGIES®
WEALTH ADVISORS

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★ Quarterly ★
Newsletter

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Retirement 101: After 50

MIKE BOOKER, CFP®, CHFC®, CFS®
SHAREHOLDER, FINANCIAL ADVISOR

We have spent a good deal of our adult lives listening to advisors, like me, preach the benefits, no necessity, of saving for retirement. Some of us are in great shape, some of us aren't. So, here is my "after 50 retirement assurance techniques" to either keep you on track for a successful retirement or help you get back on track. Spoiler alert: It's not too late.

For most of us north of age 50, there is still enough time from full retirement to make necessary adjustments to assure a great retirement. At this age, people have the resources and opportunity to get more aggressive in saving for retirement. They also have a better idea of when they might want to retire. Over the past 35+ years I have been advising individuals and companies, these three techniques have been sure fire ways to ensure a successful retirement.

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1. Pay off Debt: Perhaps nothing is more critical to financial stability than keeping debt low and paying off any and all outstanding debt when possible. Debt alone is the primary reason companies and individuals fail financially. It is important to note that eliminating expenses also reduces the amount of income you will need to replace on an annual basis, which in turn reduces the size of the nest egg you will need to have saved prior to retirement.

Paying off debt isn't as easy as it might seem. At what might be the very peak of your earning prowess, paying off debt requires giving up stuff that you really want-the house you always wanted, that German luxury vehicle or galactic sized swimming pool. But isn't it worth forgoing or delaying the purchase of a few luxury items to not have to spend your retirement years worrying about outliving your money?

2. Increase Savings: Admit it, you knew this one was coming! It's a fact that consumption is more fun, more fulfilling than saving. It's human nature. This technique is every bit as difficult as paying off debt, but there are a couple of tricky ways to save money that you can employ with minimal pain.

First, make sure that you are putting the maximum amount allowable into your work retirement plan. Studies have shown that a very effective way to save money is to have money taken from your income before you can get your hands on it. It not only gets invested in a consistent manner; studies show that you won't even miss it! But there is even more you can do. The government has given all Quinquagenarian employees something called a "catch up" provision for qualified retirement plans. It allows an extra deductible contribution that provides you a turbo charged deposit not available for those under 50. Second, make annual contributions to your traditional or Roth IRA. It takes commitment. You can do this!

3. Shun Lifestyle Inflation: Wikipedia defines Lifestyle inflation as "a phenomenon that occurs when as more resources are spent towards a standard of living, former luxuries become perceived as necessities." Sound familiar?

As professionals hit their top end earnings peak in their 50's, it is critical that they understand that their incomes will increase modestly with inflation, but they are far less likely to make the dramatic jumps in pay that they achieved in their 20s and 30s. Big ticket purchases are at the heart of lifestyle inflation as individuals tend to buy those things "I've always wanted, but couldn't afford until now." Resist this emotion and see if you can scale down the big purchases so that you can remain on track for a financially solid future. Treat yourself, scratch that itch, just avoid going so big that you must commit significant resources to not only make the initial purchase, but to maintain that new car or fill that new house with more furniture.

You don't have to go radical on all three of these recommendations, but a dash of each will go a long way to clinch a successful retirement. You still have time; you just need dedication and commitment. Not sure where to start? Call us, that's what were here for.

Medicare Open Enrollment Begins October 15th

WILL GOODSON, CFP® | FINANCIAL ADVISOR

The beginning of fall always brings some much-anticipated changes – cooler weather, leaves changing color, and much more. For Medicare recipients, it may bring some not-so-welcome changes. Each year beginning in mid-October is what's known as **Medicare Open Enrollment**. Whether you are new to Medicare or have been covered for many years, this is an important time to review your medical coverage.

Like most things with Medicare, Open Enrollment is confusing, so we put together this short guide to help you better understand it and how it may impact you.

What is Medicare Open Enrollment?

It is the one time every year that Medicare recipients may have the opportunity to modify their health coverage. It begins October 15th and ends December 7th.

What adjustments can I make during Open Enrollment?

The changes you can make depend upon how you receive your Medicare coverage. If you chose Original Medicare:

- You can drop Original Medicare and switch to a Medicare Advantage Plan.
- If you have Part D prescription drug coverage, you can switch to a new drug plan.
- If you do not have Part D coverage, you can enroll in a drug plan.

If you chose Medicare Advantage:

- You can change to a new Medicare Advantage plan.
- If you chose an Advantage plan without drug coverage, you can switch to a plan that does offer it.
- You can switch from Medicare Advantage to Original Medicare. Please note, you may be required to pass a health screening for additional Part B supplemental coverage (aka, Medigap).

If I make changes to my plan, when do they take effect?

Any changes made during Open Enrollment will take effect on January 1st.

What parts of my coverage can change each year?

If you chose Medicare Advantage, changes may include:

- Monthly premiums
- Out-of-pocket costs
- Network providers
- Annual deductibles, and much more

If you have a Part D plan through Original Medicare, changes may include:

- Monthly premiums
- Formularies (the list of drugs covered by the plan)
- Medication tiers
- Network of pharmacies, and much more

How do I make changes to my plan?

If you need to make adjustments to your coverage, you can call 1-800-MEDICARE or make changes online at www.medicare.gov. You can also work with a licensed Medicare insurance professional to help with these changes. We are happy to provide a recommendation if needed.

You may find that your current coverage remains your best option. If that's the case, then no changes are necessary. But never assume that your plan will remain unchanged each year. It is very common for these plans to adjust costs and coverage. It is always recommended to review your Medicare coverage each year to ensure you have the proper coverage to meet your health needs and your budget.

If you have questions about your Open Enrollment needs, please feel free to contact us today.

Two Economic Recoveries

MIKE MINTER, CFP®, CFS® | SHAREHOLDER, PORTFOLIO MANAGER

Recent economic data show that we may be near the halfway point in the recovery from the COVID-19 shutdown. However, there is evidence that the second half may take much longer and be more difficult. This is because there are really two recoveries underway: many areas which were not directly affected by the public health crisis bounced back rapidly while others may need years to fully recover.

This balance has been enough to drive the stock market to new highs as the market continues to look forward. However, long-term investors should continue to focus on these economic trends as the pandemic continues.

Specifically, last Friday's jobs report shows that 661,000 jobs were added across the country in September. While this is a very large number by historical standards, it is slower than in recent months when millions of jobs came roaring back. Overall, more than half of the jobs lost during the recent crisis, about 11.4 million out of 22 million, have already been regained. This is driven by the ability of many Americans to return to work after being furloughed and temporarily unemployed during the shutdown, pushing the unemployment rate down to 7.9%. While this is still high, it is far lower than the 20% or more that many economists had feared.

Many other economic data points corroborate this trend. Industrial production, consumer spending, housing activity, and other areas all bounced back from recent lows. This suggests that much of the activity that was put on hold from March to May was simply delayed. This is often referred to as "pent-up demand" since many consumers still need homes, factories need parts, businesses need services, and so on.

However, many parts of the economy are still struggling and will continue to face challenges. Some data suggest that restaurant dining activity is down 40% across the country and as much as 60% in places such as New York State. At the moment, employment at restaurants and bars is 2.3 million lower than before the crisis. There is evidence that travel activity is down by about 60% as well. Industries such as hotels, restaurants and leisure, and areas of the transportation sector will likely continue to face challenges.

Overall, the jobs data also suggest that some workers have dropped out of the labor force in recent months. The labor force participation rate, which measures the percentage of working-age Americans with a job or are looking for work, has fallen to its lowest level since the late 1970s. This is a trend that began in the early 2000s and accelerated during the 2008 global financial crisis.

Thus, the data suggest that while there has already been a significant economic recovery, there is also a divergence in economic fortunes. Navigating this period is challenging as the stock market continues to reach new highs. Still, those with the discipline to stay invested while maintaining perspective on the next phase of growth will likely navigate this period better.

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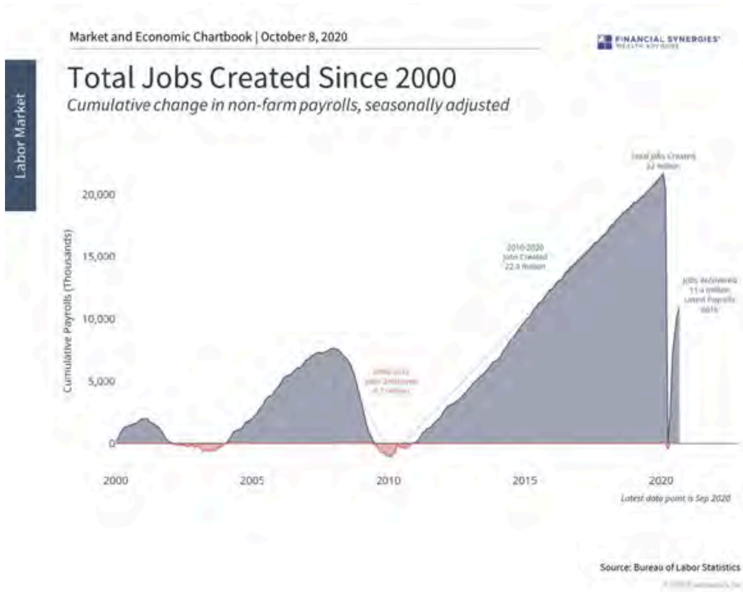
1. Over half of the jobs lost during the pandemic have been regained

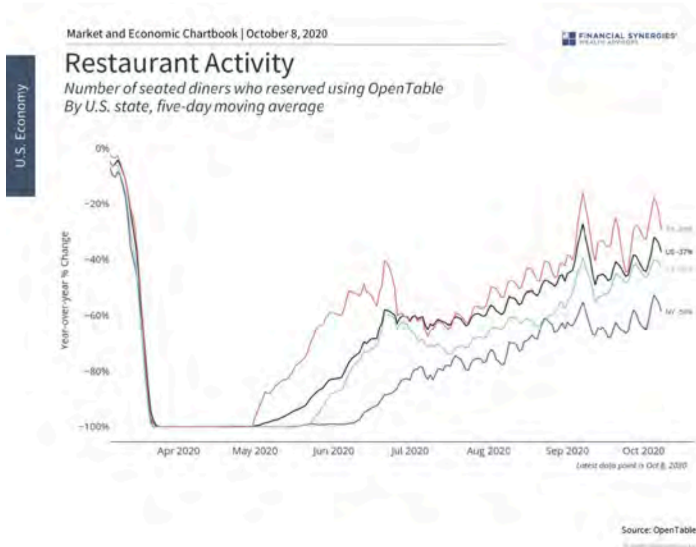


The current recession resulted in the steepest drop and subsequent recovery of jobs in history – 22 million jobs were lost in a matter of two months. At this point, more than half of those jobs – 11.4 million – have been regained. This is because many were able to return to work once the economy began to reopen.

2. Many Americans, however, have dropped out of the labor force

One worrisome trend is that the labor force participation rate has fallen. This measures the percentage of the population that is working or is actively seeking work. The fact that it has declined suggests there may be Americans who have given up on finding new jobs. This is a trend that began two decades ago and has been driven by technology, globalization, and other macro-economic factors.

3. Some areas such as restaurant and travel activity will take time to recover



Although many parts of the economy bounced back quickly, areas such as restaurant and travel activity may take much longer to recover. Some economic data suggest that these industries are still at least 40-60% below where they were just a year ago.

The bottom line? While many areas of the economy came roaring back once businesses reopened, there are also areas that may take much longer to recover. Investors should continue to focus on these long-term trends as the pandemic continues.

Source: Clearnomics

Time to Refinance Your Mortgage?

SKYLER DENNY, CFP® | FINANCIAL ADVISOR

Mortgage refinancing is a topic that is coming up in almost every client meeting these days. Mortgage rates are dramatically lower than they were even 6 months ago. Not to mention mid to late 2018, when rates were at 4.5%-5.0% for well-qualified buyers (unfortunately, this was right when my wife and I bought our first home).

Today, interest rates are at or below 3.00%, which is a historically low level. Does that mean refinancing is a good idea for everyone? Lets find out…

QUESTIONS TO ASK BEFORE TAKING THE NEXT STEP

Do you have a mortgage rate above the current level? The answer is probably yes unless you have refinanced recently. If your rate is higher now it is an excellent time to get a quote.

Do you have an adjustable-rate mortgage (often referred to as an ARM)? When interest rates are high, some buyers will opt for an ARM loan, which gives you a fixed rate for a stated period, typically 5, 7, or 10 years. After the fixed term has expired, the lender can adjust your mortgage rate based on the terms in the ARM contract. Given the current environment, now is a fantastic opportunity to lock in a fixed-rate mortgage that is likely below the ARM rate.

Do you have to pay private mortgage insurance (often referred to as PMI or MIP)? This is required when you do not put down 20% of the initial purchase price. Has the property value increased to the point where you have at least 20% equity in the property? If this is the case, you should look at refinancing to a conventional mortgage (an appraisal will be required). Refinancing now could allow you to get a lower interest rate and potentially remove the PMI. Saving more money on top of the interest rate sounds like icing on the cake to me! Suppose the property value has not increased enough to avoid PMI. In that case, you should still consider refinancing to save money on interest paid to the bank.

Do you want to pay your home off faster? This can be a more complicated scenario. Before proceeding many factors should be considered, such as how this affects your financial plan and likelihood of achieving other goals? Assuming it makes sense from a cash flow perspective, you could reduce your mortgage term to 10 or 15 years (or even shorter) at a great rate. This would likely increase your monthly payment even with a lower interest rate. After all, you are decreasing the amount of time to pay off the loan but this could save you thousands of dollars over the life of the loan in interest payments.

THREE ADDITIONAL CONSIDERATIONS

1) The first thing to consider is how long you intend to stay in your current home? You want to answer this question first because if you plan to relocate within the next 12 months, it most likely does not make sense to refinance. The reason being when you refinance you are incurring closing costs, just like when you originally bought the property. These costs typically range from $3-5k. With that being said, they can vary widely from lender to lender and the type of property you are refinancing. (Side note: Do not include escrow reserves for property taxes and insurance in the "closing costs" as you will have to pay property taxes and insurance regardless of refinancing). Long story short, you want to be sure you will be in the property long enough to recoup this expense.

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Please bear with me as I nerd out for a minute with some numbers. For example, suppose you have a $400k mortgage balance at 4.25% for a 30-year fixed term. In that case, you are paying approximately $1,968 per month in principal and interest (P&I). If you refinance your mortgage, assuming the same balance of $400k at 3.00% for a fixed 30-years, you would be paying approximately $1,687 monthly in P&I. This is monthly savings of $281 or $3,372 annually. In the above example, if closing costs are $3k, it would take less than 12 months for the monthly savings to outweigh the costs. If closing costs are $5k, it will take about 18 months to hit break-even.

2) The second thing to pay attention to is discount points. Many lenders will ask (or assume) you are willing to pay extra closing costs to lower your interest rate. I rarely recommend paying for the discount points. In today's environment, for 99% of individuals, it doesn't make sense to do this. Keep in mind that mortgage interest up to $740k is tax-deductible anyway. Keep it simple and minimize the expense to refinance while rates are at historical lows.

3) **Work with an independent mortgage broker!** Many people will go to their primary bank for mortgages. The issue with this is you are only hearing what one bank has to offer. Where brokers work with several different lending institutions to find the best rate available for your situation.

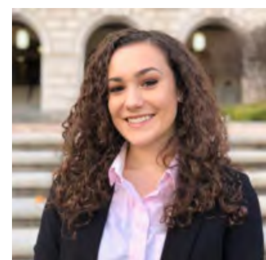
What does the mortgage refinance process look like?

The refinancing process is basically the same as when you purchased your home. The most significant difference is you will not have to deal with a moving truck and boxes galore! From start to finish, this process can take 60 days +/-. You will need to provide the lender with account statements, insurance verification, etc. At today's rates, the time it will take is well worth it!

If you have any questions regarding refinancing, please don't hesitate to reach out to us. That's what we are here for. I'm off to refinance my mortgage now.

ANNOUNCEMENTS

WELCOME, RACHEL BUCKHOFF!



Rachel was hired on after she completed her internship as an Associate Financial Advisor, helping Bryan with designing plans and supporting our clients. She is currently working remotely part-time until she graduates from UT in December, where she will come on full-time. Please join us in welcoming Rachel to the team!

CONGRATULATIONS, GRANT!

Assistant Portfolio Manager, Grant Ball and his fiance Katie tied the knot on September 18th at St. Theresa Catholic Church in Houston, TX. Please join us in congratulating them on their nuptials. We wish them a lifetime of success and happiness!