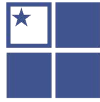

FINANCIAL SYNERGIES®
WEALTH ADVISORS

Q3 2021 NEWSLETTER

Letter from the Editor

This quarter, we launched a digital quarterly newsletter, which is why you'll find that the format of this newsletter has changed. I hope you continue to enjoy our team's thoughtful writing, and if you'd like to sign up for the digital version, feel free to email me at marie@finsyn.com and I'll make sure you're on the list.

The $35 Trillion Wealth Transfer

by Mike Booker

The mother of all wealth transfers is coming. Baby Boomer heirs listen up: it's not quite as soon as they are saying and not quite as much.

It's true, the estimates of the Baby Boomer generation's net worth is about $35 trillion and they are now preparing to pass down a record breaking amount of wealth to their heirs. The Boomer net worth represents an astonishing 27% of all U.S. wealth. As a percent of GDP, the net worth of this group is more than double what it was in prior generations.

But those Americans approaching retirement are also more likely to spend more of their money on themselves than pass it on. And, they have many more years to live. Here are some reasons this wealth transfer will have a difficult time of hitting the $35 trillion milestone:

First, many Baby Boomers have a "you only live once (YOLO)" mindset. Boomers have been uniquely focused on having personally and professionally productive retirements. They seem driven to try new experiences and stay active throughout their golden years. Preferring to pursue their passions and work doing what they love, many Boomers are pursuing flexible working arrangements rather than fully retiring. In turn, they may dip into their retirement savings while they are still working.

Second, as part of that YOLO mentality, Baby Boomers spend dramatically more than other prior generations on consumer goods – up to $400 billion annually. From home improvement to clothing and entertainment to leisure travel, the Boomers are spending. Combine these expenditures with the traditional extra cost of earned income loss and healthcare and there is a lot of money going out the door! After years of being weighed down with supporting children and grandchildren – school tuition, home down payments, cars, Boomers are turning to spending some of that cash on themselves.

According to a recent Gransnet survey of 1,000 grandparents ages 50-70, 1 in 6 plans to spend all their money before they die. Meanwhile, a Hearts and Wallets study of participants in their 50s and 60s found only 40 percent planned to leave inheritances, while 30 percent specifically expected to spend all their money.

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Boomers are also more likely to gift their wealth to charitable causes, making the wealth transfer to heirs smaller than anticipated. And whatever they do to distribute these funds will likely be split up between multiple heirs and even the children of heirs.

As a group, many Boomers have relied on their ability to create wealth. After all, the wealth management industry was built for Boomers by Boomers. But surprisingly, according to the Williams Group study, 70 percent of wealthy families lose their wealth by the second generation and 90 percent do by the third.

With Boomer life expectancy stretching into the late eighties and the oldest of the Boomers just now hitting 71, the great wealth transfer is not yet upon us, but it is coming and will unfold over the next few decades. It will be breathtaking.

What To Do with That Old 401k?

by David Wanja

The opportunity for a new job or career is an exciting time, and if you are like many Americans, you will likely change jobs or careers more than once. A question we get all the time as advisors is, "what do I do with my old 401(k)?"

You could leave the money in your previous employer's 401(k) plan. Certain company plans have a minimum balance required to leave your money in their plan. The downside to this idea is now you will have multiple 401(k)s to keep track of.

Another potential issue might arise if your previous employer is bought out or switches 401(k) providers. This now means you will have to spend time tracking down new account information. Research completed by Capitalize shows an estimated 24.3 million 401(k) accounts have been left behind by job changers.

Second option – you could roll your old 401(k) to your new employer's 401(k) plan. If your new employer plan allows this, it is an easy way to keep track of your retirement savings. Plus, your new 401(k) plan might have better investment options and lower fees. You will want to make sure you complete a direct rollover (rolling funds directly from your old 401(k) to new 401(k) plan) so you avoid taxes or penalties.

Another great (and convenient) option is rolling your old 401k into an IRA (Individual Retirement Account) or Roth IRA. Doing this will broaden the investment options available to you, as you will be in control of your retirement savings and not beholden to the plan's rules.

If you contributed to the Pre-Tax or Traditional option in your 401(k) you will want to directly roll these dollars over to a Traditional IRA, so you pay taxes only when you take withdrawals. Some employer plans have a Roth 401(k) option, so these dollars can be rolled over to a Roth IRA.

In rare cases folks cash out their old 401(k)s. Withdrawing funds from your 401(k) counts as income to you, and depending on your age or withdrawal reason you may have to pay taxes and penalties on this type of transaction.

Please visit with your financial advisor before deciding what to do with your old 401(k). We would be more than happy to advise you on the best course of action.

Financially Planning for a Wedding

by Amber Loehr

As an incoming 2022 bride, I figured "COVID Brides" would have been a phenomenon of the past by the time my big day rolled around. But, if you are like me, you probably have discovered the craze of wedding planning in 2021/2022 and the legacy of the COVID-19 pandemic is still dramatically impacting the wedding industry.

Most couples who were not able to have their dream wedding during the pandemic either had a small ceremony and are having their dream wedding during the pandemic either had a small ceremony and are having their dream wedding now, or have continued to push off their big day until late 2021.

As a result, demand is outrageously outweighing supply. As consumers, we understand that this directly correlates to our wallets. With weddings already being a large expense, naturally this can be worrisome.

Without considering the estimated skyrocketing prices for 2022 weddings, the average price of a wedding in 2021 is ~$22,500 according to a survey done by The Knot. This can range vastly depending on the state you live in and cost of living. To give you an idea of how 2022 events will be affected, the industry is already seeing a 30-40% increase in costs.

So, of course I put on my financial planning hat and asked myself, "how can we better plan for this?" Just like any other large expense we discuss with our clients, we recommend having a prudent savings strategy in advance to be adequately prepared.

Another recommendation would be to book your vendors as soon as you feel comfortable (venue, caterer, hair/makeup, photographer, etc.). Be sure to soak in all the emotions that come with being engaged, but then get to work on your checklist. The closer you get to your wedding date, the less vendors you will have to pick from, and prices will start to increase due to their demand.

Finally, as you would hire a financial planner, hiring a wedding planner can be pivotal for your budget and stress level. Professionals know the tricks of the trade better than anyone and have relationships with vendors to help you stay within your price point.

Be sure to speak with your financial advisor regarding saving and paying for a wedding if this is a goal of yours, regardless of when you think this event could occur. We want our clients to be able to have the wedding of their dreams, without putting their financial plan at risk. With proactivity and realistic expectations, this goal can become a reality!

A Take on ESG Investing

by Rachel Buckhoff

When it comes to our industry, there are so many acronyms it is easy to get lost! Lately, there is one you may have heard that is sweeping fund companies by storm, earning both endorsements and critiques from some big players: ESG investing. Environmental, Social, and Governance funds (ESG funds) have grown to an impressive $35.3 trillion in assets under management in 2020. In theory, ESG funds hold securities (stocks or bonds) issued by companies that make efforts toward fighting inequality, climate change, or boast a diverse management team. On paper, the mission looks admirable, but it gets a bit more complicated.

ESG investing has received criticism from both the left and the right. Those on the left claim that the style is just greenwashing, a marketing ploy to make 'dirty' companies look 'cleaner.' They argue that investing in these funds does not lead to any meaningful change and damages the very causes it claims to support. Investing in solely ESG funds may allow people to offload their responsibility to help create a free, clean world.

Some even go as far to state that, in an area the free market has failed, more market cannot be the solution. On the other hand, those on the right, say the idea is anti-free market.

The decision as to which companies are good enough to make it into an ESG fund is made by committees at the investment company responsible for designing the fund, and there really is no consistent or standard measure to what makes a company 'good'. Many investors understand ESG funds have limitations because of this but see ESG investing as an opportunity to use capitalism for a greater purpose. Some ESG supporters believe you can have your cake and eat it too, and there is some data to support their claim.

In 2020, the S&P Composite 1500 ESG, a US-based ESG index with companies of all sizes, returned 36.4%, only .2% less than its non-ESG counterpart. The same fund over the past three years has returned 18.6%, outperforming the traditional S&P 1500 Composite which returned 17.2% over the same period.

However, the explanation may not be that 'clean' companies are better performers. Lots of technology companies earn spots in ESG funds simply because the nature of their business lends itself to a smaller carbon footprint. As a result, ESG funds have benefited from the impressive technology run-up over the past few years. Regardless, the ESG style of investing is so new it's hard to make any return claim given such a short period.

The ESG investing space is rapidly growing and evolving. The more market share it begins to take up, the more critiques it will likely face, but that is how flaws are realized and improved upon. For some, these funds offer an opportunity to ally with companies who hold similar beliefs. In the right situation, ESG funds may offer investors a vehicle that allows for some control over the companies they invest in.

Will Inflation Kill Stock Returns?

by Mike Minter

You may be wondering whether stock returns will suffer if inflation keeps rising. Here's some good news: Inflation usually is not bad news for stocks.

A look at equity performance in the past three decades does not show any reliable connection between periods of high (or low) inflation and US stock returns.

Since 1991, one-year returns on US stocks have fluctuated widely. Yet weak returns occurred when inflation was low in some periods, and 23 of the past 30 years saw positive returns even after adjusting for the impact of inflation. That was the case in the first six months of 2021, too (see Exhibit 1).

Over the period charted, the S&P 500 posted an average annualized return of 8.5% after adjusting for inflation. Going all the way back to 1926, the annualized inflation-adjusted return on stocks was 7.3%.

History shows that stocks tend to outpace inflation over the long term—a valuable reminder for those concerned that today's rising prices will make it harder to reach their financial goals.