The LynnLeigh Journal

Life. Investing. And Everything in Between

May 2023

Plan for a Comfortable Retirement

By Kelly L. Olczak, CFP®

As you look ahead to retirement, it can be challenging to decide when the right time is and what steps should be taken for financial security. Where do you begin?

One of my favorite things I do is help our clients get their plan in motion so that whatever comes up down the line - whether an artificial timeline from employers or changes due to health considerations. We want to ensure that there's enough resources on hand for a successful transition into life after work. Planning today determines how much fun tomorrow holds!

As you build your plan for retirement, it's important to keep in mind your financial goals and ensure you have a comfortable and happy retirement. Here are five questions to ask yourself to ensure that you're on the right path to achieving this.

1. **<u>How much money will I need for a comfortable retirement?</u>** It's essential to have a realistic idea of the amount of money you'll need for your living expenses, healthcare, and investments.
2. **<u>When do I plan to retire?</u>** Knowing the time frame to hang it up will enable you to create a realistic savings and investment plan.
3. **<u>Have I started saving early enough?</u>** Saving early and often is one of the best ways to ensure that you have enough money to retire comfortably.
4. **<u>Am I maximizing any employer contributions?</u>** Employer pensions, matched contributions, or similar programs can help boost your retirement savings.

LynnLeigh & Company
Reliable Guidance • Financial Well-Being • Boldly Transparent
1160 A Pittsford-Victor Road Pittsford, NY 14534 585.623.5970
A Registered Investment Advisor

5. **<u>Am I diversified enough?</u>** Make sure to diversify your retirement savings by investing in various asset classes, such as stocks and bonds, to help reduce your portfolio's exposure to market risks.

The answers to these questions can help you plan appropriately and create a comfortable retirement that you deserve.

I have found that helps to create a vision of your future. This process can help you 'work backwards' so you know what your savings are supposed to allow you to do. Here are some that I find helpful:

- What goals do you have for retirement?
- What would you like to do in retirement?
- How would you spend your days?
- Do you enjoy traveling?
- What are your hobbies?
- Do you want to stay in your home or are you considering a smaller place?
- Would you like to live in a different location?
- Would you move closer to family or kids?
- Or would you choose a location based on climate or quality of life?

Your goals are *your* goals. They are not mine. They are not your family members' goals and they are not your friends' goals. Your goals play a big role in how you plan for retirement.

FIRE up your portfolio

There is a group of folks that subscribe to a concept called FIRE (Financial Independence Retire Early). FIRES puts a hefty premium on financial security. Their goal is to clock out of the workforce well before they reach the age of 65. In some cases, before they turn 40.

Honestly, I don't know what I would do in retirement for 50 years, but there are different ways to retire for everyone. In my opinion, this is a VERY extreme concept, but it is an interesting concept to understand.

So, how do they accomplish their strategy? They trade today's luxuries and perks for financial independence. They may save 50%, 60%, or even 70% of their income. Like a runner training for an ultramarathon, discipline and focus are paramount in this approach.

The FIRE savers max out their 401k plan, going well beyond the company match. They contribute to other tax-deferred vehicles such as an IRA. But they don't stop there. They sock away cash in taxable brokerage and savings accounts.

But it's not simply about growing their savings. Minimizing expenses is a part of the equation. They skimp on eating out and on vacations. Cars are simple and usually purchased used. Forget about streaming services, pricey popcorn at the movies, or the latest clothing styles.

It's matinee prices, dollar theaters, and Goodwill. Simply put, they are always looking to cut corners, increase income, and boost savings.

FIRE devotees typically want to save 25 times their annual expenses before they retire. It's what they call the rule of 25.

For example, if your monthly outlays run about $5,000 per month, your annual expenses total about $60,000 per year. Multiply 60,000 by 25 and you will need $1.5 million in savings before you retire.

Believe me, FIRE isn't for everyone. Few folks can save 50% or more of their income. Do you have kids? Are you saving for college? A spartan lifestyle that focuses too heavily on savings is simply too challenging a path for most folks.

If you decide to embark on this road, be careful that you aren't unwittingly drawn back into the workforce. Those who retire early don't always stay retired. Meet Sam Dogen.[1] Sam retired at the age of 34 with $3 million. He's back in the workforce.

There are several reasons for his 'unretiring.' He missed the camaraderie of the workplace, and retirement can be lonely. There is only so much golf or pickleball you can play during the week.

While his investments lost ground last year, he's also figuring out that college for his kids is not cheap. I know, shocker, right?

And now, the rest of us

Personally, I would find the FIRE concept an interesting dinner conversation, but most folks want to save for retirement at a more reasonable pace.

Nonetheless, we can learn from the diligence this group display. Might we be able to modify some of the principles FIRE devotees live by? Absolutely! Here's a more moderate plan:

1. **Boy, do I preach this one… set aside six months of expenses in an emergency fund.** While skyrocketing interest rates have hampered stock market performance over the last year, savers can now earn up to 5% risk-free. We'd be happy to point you in the right direction. If you want to know more, please contact me.
2. **Save up to 15% of your income in your company's 401k.** If zero to 15 in one paycheck leaves you short of breath, start small and ratchet it up every couple of months. You won't miss the cash.

   But if it turns out that 15% is too difficult or interferes with other financial goals, at least always capture your company's match. It's free money. Why leave any behind?
3. **Get out of debt.** This includes student loans, credit cards, and auto debt. We have helped many of our clients build a plan to pay down your mortgage in a timelier manner. I really love it when our clients can retire without a mortgage.
4. **Max out IRA and HSA.** Consider fully funding an IRA account and max out your health savings account if it's offered as a part of your health coverage.
5. **Are you 50 or older?** If so, consider catch-up contributions [2] for retirement savings. For an IRA, you may contribute up to $7,500 in tax year 2023.

LynnLeigh & Company
Reliable Guidance • Financial Well-Being • Boldly Transparent
1160 A Pittsford-Victor Road Pittsford, NY 14534 585.623.5970
A Registered Investment Advisor

The 401(k) contribution limit for 2023 is $22,500 for employees. If you're 50 or older, you're eligible for an additional $7,500 in catch-up contributions.

6. **Diversify within asset classes and among asset classes.** When you are young, a diversified portfolio that leans heavily on stock mutual funds and exchange-traded funds is probably your best choice. Dollar-cost averaging allows you to take advantage of market dips.

   As you near retirement, you may want to gradually reduce risk by shifting to fixed income investments and reducing your exposure to stocks.

7. **Be consistent with annual financial plan updates to stay on track.** Life changes and so do your financial circumstances. I have found that an annual update can help you assess if your current plan is still aligned with your objectives. This is where you can make necessary adjustments to your goals, timing and investment strategy.

   Reviewing and updating your financial plan regularly will also help you stay on top of your debts, manage your finances efficiently and stay focused on those retirement goals. Further, it can allow you to take advantage of new investment opportunities, tax laws and other tweaks that can help you achieve both your short-term and long-term goals.

There are no easy roads, but a disciplined approach that emphasizes consistent savings, a modest lifestyle based on your income, and minimal debt will serve you well as you travel the road toward financial security and retirement.

Brief Market Update

Bank failures, rate talk, and economic anxieties

Is the banking crisis finally in the rearview mirror?

During March, Silicon Valley Bank (SVB) unexpectedly collapsed after it announced a plan to raise capital. Signature Bank (SB) was shuttered shortly after SVB's closure.

LynnLeigh & Company
Reliable Guidance • Financial Well-Being • Boldly Transparent
1160 A Pittsford-Victor Road Pittsford, NY 14534 585.623.5970
A Registered Investment Advisor

At the time, it was the second and third-largest bank failures in U.S. history.

First Republic Bank (FRB) was already on shaky ground but had survived by borrowing heavily from the Federal Reserve and government-backed lending groups.

When it released its earnings in late April, FRB said it lost a significant amount of deposits in the first quarter, dooming its ability to remain independent.

Shortly thereafter, with the assistance of the FDIC, JPMorgan Chase (JPM) announced on May 1 that it will purchase the deposits and most assets of First Republic. FRB's failure is now the second-largest failure in U.S. banking history.

How does this compare to the 2008 financial crisis? *It doesn't.*

The 2008 crisis was sparked by ultra-easy mortgage lending practices that encouraged borrowers to buy homes they couldn't afford and take out mortgages they didn't understand.

While Signature Bank was heavy in the crypto space, the common thread in the 2023 failures was a bad bet on interest rates, not poor-quality assets.

FRB leaned heavily into jumbo-sized mortgages when rates were much lower. Silicon Valley loaded up on long-term Treasury bonds when yields were at rock-bottom levels.

When interest rates rose, those assets fell sharply in value, leading to their demise.

The decision by the FDIC to fully back the deposits of SVB and SB probably prevented a series of bank runs on mid-sized regional banks, which would have greatly increased the size and scope of the crisis.

Moreover, the Federal Reserve implemented a new lending facility to allow banks to borrow using high-quality assets as collateral, which helped shore up liquidity and calm frazzled nerves.

It's not that these banks were experiencing the kind of troubles we saw in 2008, but the fear of panic was real for those who had deposits that exceeded the FDIC limit.

It only takes a few keystrokes on a PC or smartphone to move cash today. Welcome to the world of 21st century bank runs.

LynnLeigh & Company
Reliable Guidance • Financial Well-Being • Boldly Transparent
1160 A Pittsford-Victor Road Pittsford, NY 14534 585.623.5970
A Registered Investment Advisor

We can't definitively say there aren't problems still lurking in the shadows. But JPMorgan CEO Jamie Dimon[3] said, "This part of the crisis is over. For now, let's take a deep breath."

Key Index Returns		
Index	**MTD %**	**YTD %**
Dow Jones Industrial Average	2.5	2.9
Nasdaq Composite	0.0	16.8
S&P 500 Index	1.5	8.6
Russell 2000 Index	-1.9	0.4
MSCI World ex-U.S.A*	2.5	9.9
MSCI Emerging Markets*	-1.3	2.2
Bloomberg Barclays U.S. Aggregate Bond TR USD	0.6	3.6

Source: Wall Street Journal, MSCI.com, MarketWatch, Bloomberg
MTD returns: March 31, 2023 –April 28, 2023 YTD returns: December 30, 2022–April 28, 2023
**U.S.D.*

With the banking crisis sliding to the backburner last month, investors turned to the economic fundamentals.

Inflation is gradually moderating, but it's not yet on a path back to the Fed's 2% annual target, something Fed Chief Powell and most Fed officials last year said was a prerequisite before ending its rate-hike campaign.

But banking jitters have forced the Fed to reevaluate the tools (rate hikes) they are using to rein in inflation. This week the Fed raised its key interest rate by one quarter of a percentage point from 5.0% to 5.25%. Some believe that this will be the final rate hike of this cycle that began last March. The fed has been working overtime to cool down U.S. inflation since the post-Covid pent-up consumer demand, supply chain disruptions and a tight labor market sent inflation soaring to 40-year highs in 2022.

In April, the Labor Department reported the consumer price index (CPI) rose at an annual rate of 5% in March, down from the 6% annual gain in February and the 40-year high of 9.1 in June 2022. Yikes… 9.1%.[6] But, what this tells us that inflation is receding even if it doesn't feel like it at the grocery store or the gas pump.

Still, economic storm clouds on the horizon likely limited gains last month.

LYNNLEIGH & COMPANY
RELIABLE GUIDANCE • FINANCIAL WELL-BEING • BOLDLY TRANSPARENT
1160 A PITTSFORD-VICTOR ROAD PITTSFORD, NY 14534 585.623.5970
A REGISTERED INVESTMENT ADVISOR

"Usually, recessions sneak up on us. CEOs never talk about recessions," economist Mark Zandi of Moody's Analytics said late last year.[4] "Now it seems CEOs are falling over themselves to say we're falling into a recession. …Every person on TV says recession. Every economist says recession. I've never seen anything like it."

Even the Federal Reserve, which rarely talks recession in advance, expects a mild recession[5] to develop later in the year.

Given recent market action last month, investors aren't yet betting on a recession.

Debt ceiling drama

The U.S. Treasury is running up against its ability to borrow to finance government spending, possibly as soon as early June.

Without an increase, the U.S risks default. Republicans and Democrats are far apart, but a default is almost unthinkable. We believe a compromise will be reached that raises the debt ceiling since the failure to do so would lead to catastrophic consequences for financial markets and the economy.

And that drama will continue. No doubt. They gotta roll up their sleeves and get some work done. *Another shocker.*

Final thoughts

Certainly, I am looking forward to writing a more optimistic market update soon. For now, we are where we are. There are always going to be good markets and bad markets. I like to tell our clients that we can only control what we can control. We cannot control what the markets do, but we can control what we own. That is what we focus on.

Thank you for taking time out of your busy life to read our newsletter. Please let me know if you have any questions or would like to discuss your personal situation. The intent of our newsletter has always been to leave you a little more educated and comfortable with current events and important retirement topics. Also, let me know if there are any topics that you would like us to focus on.

Feedback would be amazing!

If you are a client, Thank you! I recognize that you have many advisors to choose to work with. That you have chosen our firm, I am honored and humbled for the opportunity to serve as your financial advisor. If you are not one of our clients and would like to chat about our unique client experience, I would be very happy to meet with you!

All the best,

Kelly

Kelly L. Olczak, CFP®
Managing Partner
LynnLeigh & Company, LLC
1160 A Pittsford-Victor Rd
Pittsford, NY 14534

kelly@lynnleighco.com

(O): 585-623-5982
(M): 585-200-2320

[1] www.finance.yahoo.com/news/fire-movement-pioneer-retired-early-130000448.html
[2] www.fidelity.com/learning-center/smart-money/401k-contributions
[3] www.barrons.com/articles/first-republic-jpmorgan-fdic-23db235e
[4] www.cnbc.com/2022/12/23/why-everyone-thinks-a-recession-is-coming-in-2023.html
[5] chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20230322.pdf
[6] Dugan, Wayne. "May Fed Meeting: FOMC Raises Rates, Opens the Door to Pausing Rate Hikes." *Forbes.* May 3, 2023.