AWM Financial Planning

The Key(s) to a Happy Retirement

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It's common for near-retirees to focus on their financial situation as the key to a happy retirement. However, your finances are only part of the equation. Dr. Martin Seligman, a leader in the field of positive psychology, is renowned for his research on the five conditions said to lead to authentic happiness. His **PERMA** formula can be a guidepost for happiness in retirement:

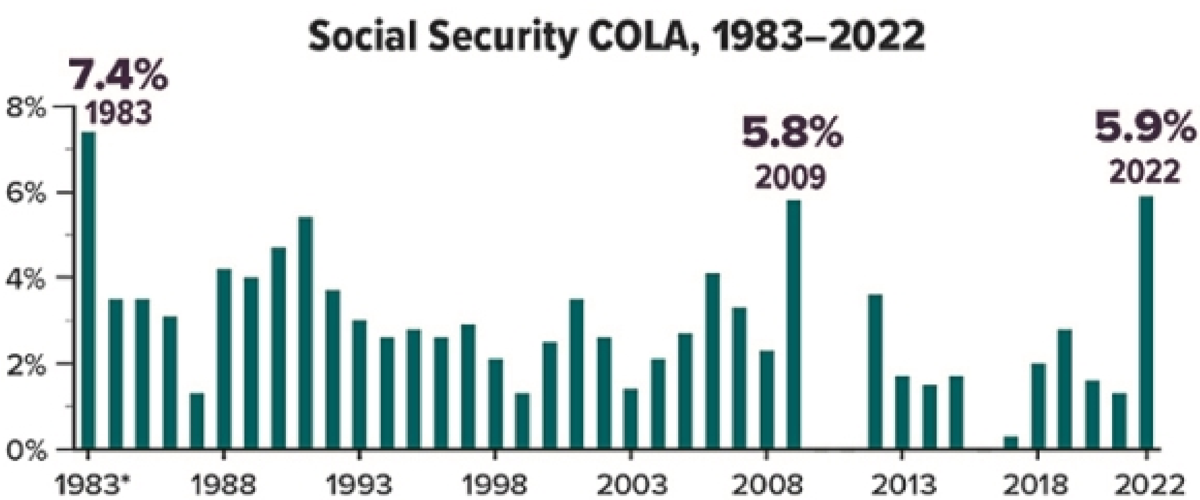
- **Positive Emotion** : Optimists do better than pessimists; learn to cultivate an attitude of optimism.
- **Engagement** : Make sure to stay engaged with friends, interesting activities and stay mentally sharp.
- **Relationships** : Maintaining positive and supportive relationships is key.
- **Meaning** : There is a huge difference between fulfilling activities and time-filling activities. Focus on living a life of purpose and value.
- **Achievement** : Setting and achieving goals will keep your mindset positive. Retirement can be a time to accomplish the things you never had time for.

You only get one shot at retirement, make it a happy one!

Big Boost for Social Security Payments

The Social Security cost-of-living adjustment (COLA) for 2022 is 5.9%, the largest increase since 1983. The COLA applies to December 2021 benefits, payable in January 2022. The amount is based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from Q3 of the last year a COLA was determined to Q3 of the current year (in this case, Q3 2020 to Q3 2021).

Despite these annual adjustments for inflation, a recent study found that the buying power of Social Security benefits declined by 30% from 2000 to early 2021, in part because the CPI-W is weighted more heavily toward items purchased by younger workers than by Social Security beneficiaries.



There was no COLA in 2010, 2011, and 2016.
*The 1983 COLA was applied to benefits payable from July 1982 to December 1983.

Sources: Social Security Administration, 2021; The Senior Citizens League, August 11, 2021

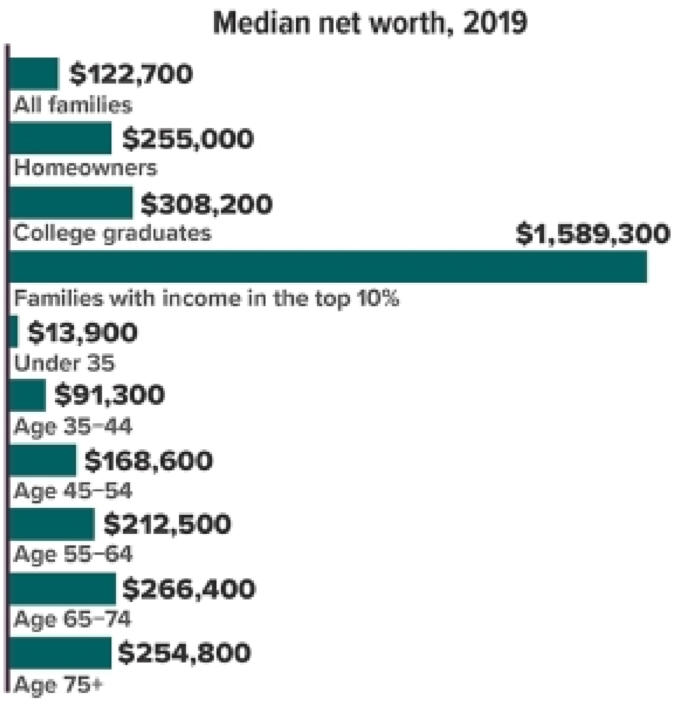
Are You a HENRY? Consider These Wealth-Building Strategies

HENRY is a catchy acronym for "high earner, not rich yet." It describes a demographic made up of young and often highly educated professionals with substantial incomes but little or no savings. HENRYs generally have enviable career prospects, but many of them feel financially stretched or may even live paycheck to paycheck for years, especially if they are working in cities with high living costs and/or facing large student loan payments.

If this sounds like you, it may be time to shed your HENRY status for good and focus on growing wealth — even if it means making some temporary sacrifices. One simple metric that can be used to gauge your financial standing is your net worth, which is the total of your assets (what you own) minus your liabilities (what you owe).

Wealth Snapshot

The net worth of U.S. families varies greatly depending on housing status, education, and income level. But it also takes time to build wealth, so there are significant differences by age.



Source: Federal Reserve, 2021

Pay Attention to Your Spending

It's virtually impossible to increase your net worth if you don't live within your means. After studying long hours and working your way into a good-paying job, you may feel that you deserve to spend some money on fashionable clothes, the latest smartphone, a night on the town, or a relaxing vacation. However, if you can't pay for most of your splurges without relying on credit — or wiping out your savings — then you may need to rein in your lifestyle. Budgeting software and/or smartphone apps can help you analyze your spending patterns and track your financial progress.

Utilize a Workplace Retirement Plan

Making regular pre-tax contributions to a traditional 401(k) plan is a no-nonsense way to accumulate retirement assets, and it helps reduce your taxable income by the same amount. Experts recommend saving at least 10% of your income for future needs, but if that's not possible right away, start by contributing 3% to 6% of your salary to your retirement plan and elect to escalate your contribution level by 1% each year until you reach your target (or the contribution limit). The maximum you can contribute to a 401(k) plan in 2022 is $20,500 ($27,000 if you are age 50 or older).

Many companies will match part of employee contributions, and free money is a great reason to save at least enough to receive a full company match and any available profit sharing. Some plans may require that you remain employed by the company for a certain amount of time before you can keep the matching funds.

Assess Your Housing Situation

Paying rent indefinitely may do little to improve your financial situation. Buying a home with a fixed-rate mortgage could help stabilize your housing costs, and you can build equity in the property over time as your loan balance is paid off — especially if the value appreciates. A home purchase may also afford tax advantages, but only if you itemize rather than claim the standard deduction on your tax return. Interest paid on up to $750,000 of mortgage loan debt is deductible, as are the property taxes, subject to a $10,000 cap on state and local property taxes.

Homeownership is a worthwhile financial goal if you plan to stay put for at least several years. And in many places, owning a home can be less expensive than renting, thanks to low interest rates. But there could be hurdles to overcome, including a hot real estate market, high prices, lingering student debt, and the large chunk of money required for a down payment.

When shopping for a home, resist the temptation to buy more house than you can afford, even if the bank says you can. And don't forget to factor property taxes, insurance, and potential maintenance costs into your buying decisions and household budget.

Annuity Income: Annuitization vs. Lifetime Withdrawal

During your working years, you're accustomed to living on an income from your job. When you retire, the income from employment ends. Social Security provides a steady income, but it probably isn't enough to meet your retirement income needs. An annuity is an option that can provide a stream of income during retirement.

With most annuities, there are usually two choices available to generate a steady income: annuitization and lifetime withdrawals from a guaranteed lifetime withdrawal benefit. Here's how each option works.

Annuitization

This is a fancy word to describe converting funds in an annuity into a stream of income for a fixed period or a lifetime. Often, once the annuity is annuitized, it can't be changed, reversed, or revoked — you're pretty much locked into the payments for the duration of time chosen.

The amount of annuitization payments is based on several factors, including the duration of the annuity payments (either a fixed period or lifetime), the cash value of the annuity, current interest rates applied by the annuity issuer, and the age of the person (referred to as the "annuitant") over whose life the payments are based. With annuitization payments from nonqualified annuities (i.e., annuities funded with after-tax dollars), each distribution consists of two components: principal (a return of the money paid into the annuity) and earnings. The percentages of principal and earnings for each distribution will depend on the annuitization option chosen.

Guaranteed Lifetime Withdrawal Benefit

A guaranteed lifetime withdrawal benefit (GLWB) enables the annuity owner to receive payments without having to annuitize the annuity or give up access to remaining cash value in the annuity. Typically, an annual fee is charged for a GLWB.

The amount of the GLWB payment is usually determined by applying a withdrawal percentage to the annuity's principal amount or cash value, whichever is greater at the time of election. The amount of each withdrawal is subtracted from the cash value. Generally, the amount of the withdrawal will not decrease, even if the cash value decreases or is exhausted. Optional benefits are available for an additional fee and are subject to contractual terms, conditions and limitations as outlined in the prospectus and may not benefit all investors.

Annuitization vs. Lifetime Withdrawal

Annuitization	Lifetime Withdrawals
Potentially higher payouts	Lower payouts
Tax-favored treatment of nonqualified withdrawals	Payments are treated as distribution of earnings first until exhausted, then principal
No fees	Additional cost for rider
Payments generally can't be stopped or changed	Option to start/stop payments
No access to annuity cash value	Access to annuity cash value that may earn interest during withdrawals
Lifetime payments for single or joint lives	Lifetime payments for single or joint lives
May not offer lump-sum death benefit	Lump-sum death benefit of remaining cash value payments continue even if cash value is exhausted

Annuities are designed to be long-term investment vehicles. Generally, annuity contracts have fees, expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Surrender charges may be assessed during the early years of the contract if the annuity is surrendered. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty. Any annuity guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Annuities are not insured by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association.

How to Correct an Error on Your Credit Report

According to the Consumer Financial Protection Bureau (CFPB), credit report errors more than doubled during the coronavirus pandemic. In addition, the CFPB found that many pandemic protections which were designed to help consumers, such as loan forbearance periods on federal student loans and federally backed mortgages, ended up negatively impacting their credit reports as a result of complications such as processing delays and suspended payments being marked incorrectly.[1] This is a significant issue for many consumers, because credit report errors may negatively impact creditworthiness and potentially lead to negative financial consequences, such as being offered higher mortgage interest rates or being turned down for a job or an apartment lease.

Fortunately, changes made during the pandemic have made it easier to stay on top of your credit report. Under new expanded rules, you are now eligible to obtain a free weekly credit report from each of the three nationwide credit reporting bureaus until April 20, 2022. To obtain free reports, go to AnnualCreditReport.com where you can fill out an online form, choose the reports you want, and, after answering some security questions, review your reports online.

If you find an error on your credit report, there are steps you can take to correct it. First, contact the credit reporting agency to dispute the error. You can do this online or by mail. Explain why you are disputing the information and be sure to include documentation that supports your dispute. The credit reporting bureau generally has 30 to 45 days to investigate the disputed information. Once the investigation is complete, the credit reporting bureau must provide you with written results. If the credit reporting bureau confirms that your credit report does contain errors, the information on your report must be removed or corrected.

If you do not agree with the credit bureau's investigation results, you can ask that a statement of the dispute be included in your file and in future reports. You can also contact the creditor that reported the information to the credit reporting bureau and dispute it with the creditor directly. If the creditor finds that the information is inaccurate, it must notify each credit bureau to which it has reported the information so the information can be updated or deleted. If you believe the error is the result of identity theft, you may need to take additional steps to resolve the issue, such as placing a fraud alert or security freeze on your credit report.

Keep in mind that correcting a credit report error can often be a time-consuming and emotionally draining process. If at any time you believe that your credit reporting rights are being violated, you can file a complaint with the Consumer Financial Protection Bureau at consumerfinance.gov.

1) Consumer Financial Protection Bureau, 2021

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