The Retirement Income Store®

NEWS

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What's Going On With The Housing Market?

A Look at the Fastest-Recovering Sector in the Economy

Despite the coronavirus crisis (and in some ways because of it), the housing market boomed last year. Although home buying briefly paused when the coronavirus first hit, 2020 was a record year for residential real estate, and home prices have continued to rise in early 2021. In short, the housing market has emerged as a pillar of support for an economy still in recovery mode. Will that support continue—and what does the answer potentially mean for your financial plan?

Why Did the Housing Market See Its Highest Pace of Growth Since the Housing Boom Of 2006?

Although millions of Americans were laid off or furloughed last year, that didn't stop the housing market from experiencing its highest pace of growth since the housing boom of 2005-2006. The 2020 boom was driven by high demand and record-low mortgage rates, and both of those factors were driven by the coronavirus crisis. Fact is, housing prices had already started to rise before the coronavirus, but the pandemic turbocharged the trend from single- to double-digits.

In many ways the housing market has performed a lot like the stock market during the pandemic: far outpacing economic recovery overall. One strong indicator this trend could continue is that demand for homes is still outpacing supply. As a result, home prices could continue to climb in 2021.

Is the Real Estate Market in a Bubble?

A bubble in any asset class is defined as "a run-up in prices driven by high demand, exuberant spending, and speculation". Bubbles, by their very nature, are destined to burst, just as the 2006 housing bubble did. The current housing boom does have some characteristics of a bubble, such as being fueled by high demand. Beyond that, however, many analysts agree the current housing market is not a bubble, but rather another example of how the pandemic has strengthened and accelerated a trend already underway. Other examples of this include home shopping, telecommuting, and advancements in communications technology.

Ultimately, the current housing boom is expected to keep booming, at least for the rest of 2021. Of course, even if the current boom isn't a bubble destined to burst, that doesn't mean there aren't factors in place that could significantly deflate it by the end of the year.

How Can the Stock Market Impact The Housing Market?

Buying a home is one of the biggest financial decisions there is, and people are less inclined to do it when they're worried about their investments. A stock market downturn could trigger that kind of worry among potential homebuyers and put a drag on the housing market. That, in turn, could increase Wall Street's worries and deepen the downturn.

Is It A Good Idea to Downsize in Retirement?

If you're like millions of Americans, your retirement plan may include selling your house and downsizing. If you planned on selling within the next few years, it might make sense to move your timetable up to take advantage of the current market. The right financial advisor can help you make that decision by examining it alongside your retirement goals and your broader financial strategy. A qualified financial advisor can also help you identify other potential ways to take advantage of today's markets and to help ensure that your portfolio is aligned with your risk tolerance.

Six Ways to Avoid Running Out of Money In Retirement

No one wants to spend their retirement worrying if they can afford the things that make them happy. Despite careful preparation, however, many discover that retirement can end up costing more than they had planned. Here are Six Steps you can take to help avoid running out of money in retirement:

1. Long-Term Care

According to the 2020 Genworth Cost of Care Survey, the average annual cost of care in an assisted living facility was $51,600. The annual cost of a private room in a nursing home is $105,850.[1] Having a plan for how you will pay for long-term care in the event that you need it could help you avoid a financial nightmare in your later years.

2. Longevity

According to the Social Security Administration, about 25% of 65-year-olds today will live to age 90.[2] So, if you retire at age 62 and have only saved enough to cover 20 years of expenses but you live into your 90s, you could have to learn make do with less in those last few years of retirement.

To avoid this, it's important you do not depend on one source of income in retirement. You should have a diversified portfolio of income-generating investments from which you can withdraw money over time.

3. Inflation

During our working years, we might not feel the impact of inflation because we receive periodic raises that help us keep up with rising prices. For those lucky enough to have a pension it is important to note that most pensions do not offer a cost of living adjustment (COLA). Social Security does offer them, but what is usually given in COLAs is often taken back in the form of rising medical premiums.

Besides saving more ahead of retirement, those nearing retirement can delay claiming their Social Security benefits. You can maximize your benefits by waiting to claim them until you reach full retirement age (FRA)—which is around 66 or 67 for most. For every year you wait after FRA, up to age 70, you get a boost in your monthly benefit.

4. Healthcare

A common mistake is to use current healthcare costs when formulating your budget for retirement. That's because healthcare costs can rise much faster than the average rate of inflation. After accounting for inflation, a couple retiring today could need more than $300,000 to cover medical expenses in retirement. A good way to deal with the rising cost of healthcare is to compare Medicare options and make sure you get the right plan for your needs.

5. Taxes

Often, people do not realize how big a bite taxes can take out of your retirement income. If you don't take taxes into consideration, you could go through your savings quicker than you expected. To avoid this, you can reduce the tax bite on your retirement income by saving in the right mix of taxable, tax-deferred, and tax-free accounts.

6. Market Fluctuation

Even if you take the time to come up with a withdrawal strategy that works for your financial situation, your plan might have to change due to the inevitable volatility of the stock market. We encourage you to regularly assess your withdrawal and return rates each year to determine if your withdrawal rate needs to be raised or lowered.

Concerned about running out of money in retirement? Take advantage of The Retirement Income Store's complimentary, no-obligation call with an Income Specialist to help ensure your retirement strategy stays on track.

1: https://www.genworth.com/aging-and-you/finances/cost-of-care.html

2: https://www.nia.nih.gov/health/paying-care

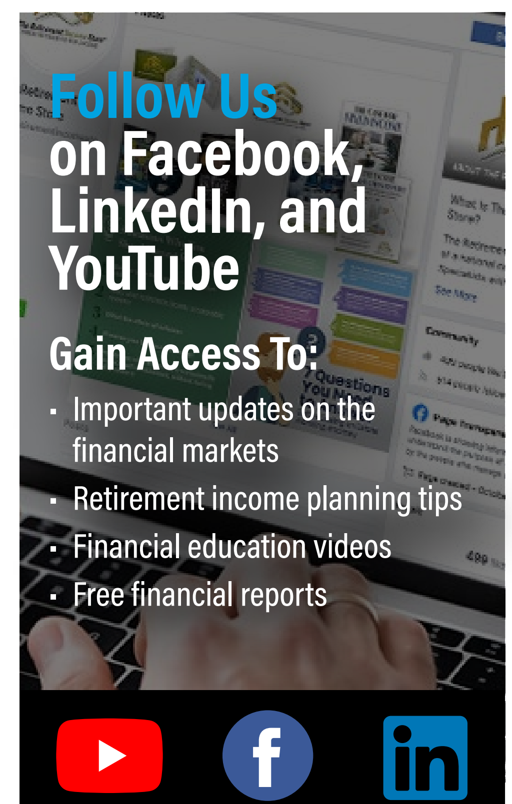
The Case for Fixed Income

As more Americans are enjoying 30 years or longer in retirement, it's become essential for those nearing retirement to establish renewable streams of income to cover their living expenses in retirement.

By placing a significant part of your retirement savings in fixed-income securities, you could establish a renewable source of income you can count on—while helping preserve your retirement savings.

Our free report The Case for Fixed Income explains what you can do to help ensure you don't run out of money in your golden years.

Download our free report ***The Case For Fixed Income*** today!



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DAVE'S CORNER

Lessons Learned from the COVID-19 Pandemic

By David Scranton, Founder, The Retirement Income Store

One silver lining in any disaster is that we can learn from it. The coronavirus pandemic was no exception. Today we're going to look at Four Personal Finance Lessons that can be learned from the COVID-19 pandemic.

Lesson #1: Expect the Unexpected

Naturally, you can't predict a pandemic, but there are ways you can minimize the impact of a sudden life-changing event. First, have an emergency fund with enough to cover six months of expenses. That savings will go farther if you don't have to put it toward credit card bills. So, paying down debt is another good way to expect the unexpected.

Lesson #2: Be Flexible

When I say flexible, I don't mean a financial plan you can change willy-nilly. I mean one that's diverse, forward-looking, and that you can modify based on changes in your life. Again, the pandemic brought on major changes for a lot of people, and you need a financial strategy you can adapt to address the changes and anticipate new ones.

One of the reasons investing for income works regardless of market conditions is its flexibility.

Lesson #3: Don't Neglect Estate Planning

Many of those who died from Covid-19 were over age 65, and countless others were on life support before they died. How many families struggled with the ultimate hard choice because they had no advance care directive? How many victims of the virus died without leaving a Will?

Without an estate plan, your assets could end up being distributed by the courts after you die. As a result, your family could end up being burdened with unnecessary stress and legal fees.

Lesson #4: Have a Holistic Plan

Your health is your wealth. That saying certainly resonates more strongly than ever following the pandemic. What also resonates is the importance of holistic retirement planning. That means planning that encompasses every aspect of what it means to be healthy – not just your financial health, but also your physical, mental, and emotional health.

Each week on my show *The Income Generation*, we cover topics that are important to those who are retired or nearing retirement. Since every person's situation is different, viewers often have questions. That's why The Retirement Income Store's social media pages include an Ask Dave forum – which I'm glad to be able to share with you.

Cynthia from New Mexico asks: "My husband is much more of a risk taker than I am, and we argue about that sometimes. What's the best way to make financial decisions that we're both comfortable with?"

That's a great question that I get asked a lot. Frankly, everyone who has been married for a while knows that marriage, and all relationships, are about compromise. It's about making sure you are able to meet in the middle. The same is true here. It is very important for you and your husband to have those risk tolerance conversations.

That person who is more aggressive in their approach to investing may have to pull it back and be a little more conservative, and that person who is more conservative might have to find ways to get comfortable being a little bit more aggressive.

Sometimes, meeting in the middle can be hard to do—especially when money is involved. That's why couples will often go to marriage counselors. Well, in this case, a good Income Specialist can serve the role of a retirement planning counselor, to help you come up with a plan that both of you are comfortable with. Thanks for your question, Cynthia.

Armond from Wisconsin asks:

"I was wondering: is there a way to sort of just 'dip your toes' in investing for income to see if it's right for you?"

Well, Armond, of course you can. You don't have to do anything with all of your money. You can start by investing just a little bit of your money for income. Now, if you are within 10 years of retirement, dipping your toes in might make sense. However, if you are only 2-3 years from retirement, you better dip your toes, your feet, and maybe your calves in there. That's because as you near retirement, just dipping your toes into investing for income could leave you stuck in a market downdraft.

So, yes, you can do it but the extent to which you do it will depend on how far you are from retirement. If you are 10 years away from retirement, high-dividend paying stocks can be a good way to dip your toes in investing for income without having to sacrifice potential growth in the stock market. Thanks for your question, Armond.

If you have a retirement-related question you would like answered, be sure to email it to me at: AskDave@TheRetirementIncomeStore.com