The Retirement Income Store®

NEWS

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PERSONAL FINANCE PRIMER & TIPS TO HELP YOU BETTER MANAGE YOUR MONEY

Survey after survey shows that many Americans do a poor job managing their finances. One reason is that financial literacy is not a priority in our education system. Another is that financial issues can seem overwhelming, with countless people not knowing where to start.

A good place to begin is to determine your net worth. Identify and write down all your assets, such as the money in your checking and savings accounts, retirement accounts, and the equity in your home. Then, list your liabilities like student loans, your mortgage, and credit card balance. Write down everything by name and dollar amount. Now subtract your total liabilities from your total assets to get your net worth. Hopefully, it's a positive number. If it's negative, or nearly so, that should serve as a wakeup call.

Next, determine your monthly household cashflow by comparing your income to your expenses. Add up all sources of monthly income and do the same with your monthly expenses. Now subtract your expenses from your income to get your monthly cashflow.

This is the most important number you need to get a better handle on your finances because it gives you a checkpoint to determine if you have more money flowing in or flowing out. This information can help you determine where you're at financially, as well as the steps you need to take to get you where you want to go.

If your monthly cashflow is flush or in the negative, figure out why. Find out where you might be overspending and see what adjustments you can make.

Now, look at your emergency fund. If you don't have one, creating one should go hand-in-hand with improving your cashflow. Ideally, you should have three to six months of living expenses saved for emergencies.

If you're in your 50s or 60s and your personal finances are a mess, you must start working to improve that situation *immediately*. Heading into retirement, you want as little debt as possible, and you want your net worth and cash flow figures to be positive.

For most, the best way to stay on track with these efforts is to make a budget. Unfortunately, this is also where many people balk or abandon the entire process. However, having a monthly & yearly budget, and sticking to it, is essential when it comes to achieving your long-term financial goals.

Preparing for Long-Term Care

People today are living longer, healthier lives than ever. Most of us hope we'll manage to make it through our 80s and 90s living wholly independent lives, but we can't count on it.

According to a recent study, about 70% of Americans who live past age 65 will require some form of long-term care.[1] It may be temporary to recover from an illness or injury, or it may be a more permanent situation in the last years of your life. In either case, there are two important reasons to prepare:

1) You'll want to have options for the type and quality of care you receive.
2) It will be costly, and most of that cost will not be covered by insurance or Medicare.

Long-term care will be expensive if you need it five years from now, and far more expensive if you end up needing it 20 years from now. Since healthcare inflation rises much faster than the general rate of inflation, long-term in-home care that might cost $150,000 per year today could cost more than twice that 20 years from now.

Of course, money isn't the only determining factor. Your state of health and specific needs also play a role. No one wants to end up in a nursing home, but in some cases, it is your best or only option. In other cases, if you don't need regular medical care but still can't live independently, you might choose an assisted living facility.

Unsurprisingly, the option most people would like to choose is in-home care. You might be able to do that if your health allows it and you're able to afford qualified help. That might be a professional home health aide or, if necessary, a skilled nurse. Unfortunately, this is the option least likely to have any insurance coverage.

Remember, insurance and Medicare coverage for any type of long-term care is limited. So, what are your options to pay for long-term care?

Well, the most obvious one is using your savings, and most people end up paying for most of their long-term care needs out of pocket. So, the more you can save to cover the costs, and the sooner you can start saving, the better. Another option is purchasing a long-term care insurance policy designed to cover your needs.

However, long-term care insurance isn't necessarily right for everyone. It depends on your situation, your retirement goals, and a number of other factors. A financial advisor who specializes in helping clients navigate the complexities of planning and saving for retirement can help you determine the right strategy to prepare to pay for long-term care.

1. https://acl.gov/ltc/basic-needs/how-much-care-will-you-need#:~:text=Someone%20turning%20age%2065%20today,for%20longer%20than%205%20years

DAVE'S CORNER

Financial Scams and How to Avoid Being a Victim

By David J. Scranton, CLU, ChFC, CFP®, CFA®, MSFS, Founder of The Retirement Income Store®

During the pandemic, many older Americans were forced to conduct more personal business by phone and online. Web scammers saw this as an opportunity and pounced. According to the Federal Trade Commission (FTC), the pandemic spike in fraud cost older Americans $600 million in 2020, with increases occurring in nearly all the top categories of fraud.[1] Below are a couple of the most common types of scams on this list:

Imposter Scams:
Here a scammer pretends to be from an organization you trust, like the IRS or Social Security Administration (SSA). This person will try to trick you into sending them money or providing your personal information. Victims are often threatened with arrest or other legal action if they don't comply. If you receive a call from someone claiming to be from the IRS or SSA asking for your personal information, hang up. These offices will never ask for your personal information over the phone, and they never threaten arrest or legal action.

Sweepstakes and Lottery Schemes:
Scammers will contact you by phone, email, or mail to tell you that you've won some kind of prize, but first you must do something to redeem it. Typically, they'll ask you to pay them a service fee or provide them with personal information. According to the FTC, Americans 60 and over lost $69 million to sweepstakes scams last year.[1]

The best way to avoid becoming a victim of a scam is to not get complacent and think you could never be victimized. Instead, keep yourself informed about how to help protect yourself. Here are a few tips to help you do that:

Never give out personal information over the phone or by email. Most legitimate businesses will only expect you to provide it in person or by some other confidential means.

As for the internet, be suspicious of any pop-ups directing you to click on them or take any action. Never click on a link in an email or a Facebook message from a source you don't recognize. Finally, don't fall prey to social media memes asking seemingly innocent questions, because your answers could give password hints to scammers.

If you've been targeted by scammers, there are many resources you should contact, including the State Attorney General's Office and Consumer Protection Agency; the Better Business Bureau and Federal Trade Commission; and the FBI's Internet Crime Complaint Center. AARP also has a Fraud Watch Network Helpline at 877-908-3360. Finally, the Financial Industry Regulatory Authority also has a resource at finra.org specifically for investment fraud.

1. https://bankingjournal.aba.com/2021/10/ftc-fraud-cost-older-americans-more-than-600-million-in-losses-in-2020/

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

Samantha from Wyoming asks: "I worry about getting sick when I'm older, so I'd really like to retire before I'm 60. Is there a downside to retiring that early?"

Thank you for your question, Samantha. I would say that the biggest potential downside is that you'll have to deal with inflation for a longer period of time. Fortunately, it's not insurmountable. The younger you are when you retire, the longer you get to enjoy your health in your go-go years. Unfortunately, you'll need your investments to generate more income in your later years, because you'll need to deal with inflation for a longer period of time. That includes inflation on healthcare costs, which rises much faster than the general rate of inflation, historically speaking.

You also need to consider that you can't apply for Medicare until you reach age 65. So, if you retire at age 60, that means you'll have 5 years where you'll have to pay for your health insurance on your own. Thanks again for your question.

Dennis from South Dakota asks, "I know financial advisors are doing more things virtually now, so what steps have they taken to help protect their clients?"

That's a good question, Dennis. When you initially start working with a financial advisor, they'll usually need to get copies of your financial statements and tax returns. Emailing or faxing those types of documents is too dangerous since they can be intercepted. Most reputable financial advisors now use websites with encryption software that allows you to upload your documents and send them to the advisor in a more secure manner. If someone tries to intercept those documents, they won't be able to read them since the information has been encrypted.

If you have a retirement-related question, be sure to email it to me at: AskDave@TheRetirementIncomeStore.com.
You can also keep yourself informed by subscribing to the Income Generation's YouTube channel.