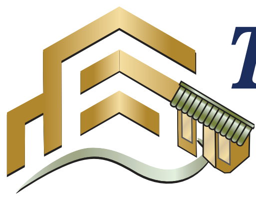


The Retirement Income Store®

NEWS

September 2022 – Vol. 4, Issue 9 | 1

TheRetirementIncomeStore.com

MAKING YOUR RETIREMENT 'RECESSION PROOF'

With inflation at a 40-year high and interest rates rising again, many analysts believe another recession is imminent—if not already underway. Recessions are a natural part of economic cycles, so it's important to have a financial strategy that help prepare you for these economic downturns. Specifically, you should know what recessions are and how they can affect your finances; everyday strategies to prepare you for any recession; and how to make your retirement strategy "recession proof" by investing for income.

Let's take this one by one, starting with some basic facts about recessions. A recession is a slowdown or contraction of the economy over an extended period. Beyond that, the definition varies. Most analysts define it as at least two consecutive quarters of economic shrinkage, which we've already had in 2022. Other common characteristics include high unemployment, an increase in bankruptcies, a poor housing market, and a down stock market.

Recessions can affect your finances in many ways, especially if interest rates rise significantly. As Warren Buffet has said, rising interest rates decrease the value of all assets. Going back to 1857, the average time between recessions is about 3.25 years. That means when you're creating a retirement plan designed to last 30 years or more, you need to factor in the probability of all those future recessions.

Now, let's look at some general strategies to help you prepare for a recession. First, have an emergency fund; it's the best way to help ensure you won't have to dip into your retirement savings during a recession. The fund should be enough to cover at least six months of living expenses. Second, pay down or pay off your debts. Debt will make any financial hardship worse, especially in a poor economy. Third, live within your means, always. If you are disciplined with spending during good economic times, you're less likely to struggle in bad times.

Fourth, identify ways to cut back. It's always a good idea to go through monthly expenses and identify services or items you don't really need. Fifth, have additional income. Even if you have a good, full-time job, it's never a bad idea to have a source of extra income. Diversifying your streams of income is as important as diversifying your investments.

Now, let's talk specifically about recession-proofing your retirement. Building an investment plan is like building any other kind of plan: you need to know exactly what you're working toward. So, step one is identifying your specific retirement goals. Once you do, you'll probably realize they're income-based goals, meaning they're lifestyle goals you'll want to pay for from your regular income stream. If that's the case, doesn't it make sense to invest directly for income? For most people, the answer is yes.

When you invest for income, you're using strategies designed to help protect your principal and generate reliable income in the form of interest and dividends regardless of market conditions. That's because the most conservative tools in a typical income portfolio are individual bonds and bond-like instruments, which are contractual investments. You get a contract guaranteeing your income at a fixed rate regardless of whether your bond values temporarily go up or down due to rising or falling interest rates.

The contract also guarantees the return of the par value of your investment if you hold the bond to maturity and provided there is no default. Investing for income also gives you the kind of diversification that can enable strong performance in one area of your portfolio to minimize weak performance in another area during a difficult economy.

Building a strategy that helps ensure reliable income for up to 30 years of retirement is more important than ever today. Global economic uncertainty has never been higher, meaning no one can predict just how bad any future recession may be, or how long it may last. Make sure you're prepared!

SHOULD YOU CONSIDER A ROTH CONVERSION WHILE THE MARKET IS DOWN?

While the market may not be a fun time for investors, there are some bright spots and opportunities to be had. Stock market drops like we've seen recently might make a Roth IRA conversion more appealing as a strategy for investors.

Should you consider converting a traditional IRA to a Roth during a down market? There are a few things to consider before doing so.

What is a Roth conversion?
Before you embark on a Roth conversion, you need to fully understand what it is. When you have a traditional IRA, those are pre-tax dollars that you're investing. While money grows tax-free, when you later go to take a withdrawal, every dollar you pull will be taxed.

With a Roth IRA, you are investing post-tax dollars, and when you convert a traditional IRA to a Roth, you pay the full tax during the year that you convert, at ordinary income rates. Then, the dollars that you've converted will grow tax-free for the remainder of the time that they sit within the investment. When you later take money out of a Roth, it's all tax-free, if you are 59 ½ or older and follow a few rules.

Important information on Roth conversions in a down market
When you start a Roth conversion, you'll be responsible for paying the tax due on any pre-tax contributions or earnings with the traditional IRA. The benefit here is that if the market has dropped, it's likely that your IRA value has dropped along with it – so your full value has gone down, and you'll be paying taxes on the current value (which is lower, due to the market being down). So, in theory, you can convert a larger portion of your IRA in a down market and pay less in taxes than you could in years when the market is up.

What are the pros of a Roth conversion?
Converting from a traditional IRA to a Roth has potential benefits for investors. Because a Roth IRA allows for dollars to grow tax-free, all the growth is also tax-free. There are also no RMDs, or required minimum distributions, on a Roth IRA once you turn 72. With a traditional IRA or 401(k), you have a set minimum you must withdraw each year once you hit RMD age, but Roth IRAs do not adhere to this rule.

Words of caution on Roth conversions
Roth IRA conversions aren't all benefits though, there are a few things to be aware of. There's the five-year rule, where you must wait five years after conversion before making a withdrawal, or else you could incur a 10% penalty. Keep in mind that this five-year rule only applies to those younger than 59 ½. After you reach that age, the five-year rule and its penalties no longer apply.

Triggering a Roth conversion may also increase your adjusted gross income (AGI), which could compound other issues, such as Medicare premiums. This may also increase your tax rate.

The best way to help determine if a Roth conversion is the right move for you during the market is to work with a financial advisor and tax professional so you can get feedback on your specific situation.

BEFORE YOU RETIRE

You should know what all your various sources of income will be. Obviously, Social Security benefits will be one of those sources, but how much you can expect to receive depends on many factors. Download our Understanding Social Security report to learn how you can help maximize your benefits.

DOWNLOAD REPORT

DAVE'S CORNER

RETIREMENT REGRETS

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

It is easy to identify things you could have done differently knowing what you know today. If only we had a crystal ball, life could be so much easier.

Here are some regrets often heard from retirees that you may want to consider as you make important decisions about your future.

Starting a transition plan earlier
Obviously, the sooner you start saving for retirement, the longer growth compounds for you over time. But saving isn't the only thing retirees regret putting off. Many retirees wait until the last few weeks or months before they want to retire to begin planning for the actual transition.

After learning of what is involved with their transition into retirement – from accumulating assets to helping to protect and prepare to distribute assets – many retirees often wish they would have started planning their retirement sooner. They admit that there is more to preparation than they thought was needed.

A huge retirement myth is the thought of having a large 401(k) or investment account is all that is needed to retire, but there is more to it than simply having enough money and choosing a date. It is best to map things out a few years before the big day.

Getting help with high-level strategies sooner
Making assumptions about your retirement is a slippery slope because there is so much to be considered, and time is of the essence for a plan to unfold and be successful.

If you want to help avoid adding to your "woulda, coulda, shoulda" list, don't navigate the maze of decisions, actions, and products alone. Even if you have a heightened understanding of the markets, your access to products and understanding the tax implications of retirement is difficult for even a seasoned financial advisor to keep up with, much less someone in an unrelated field.

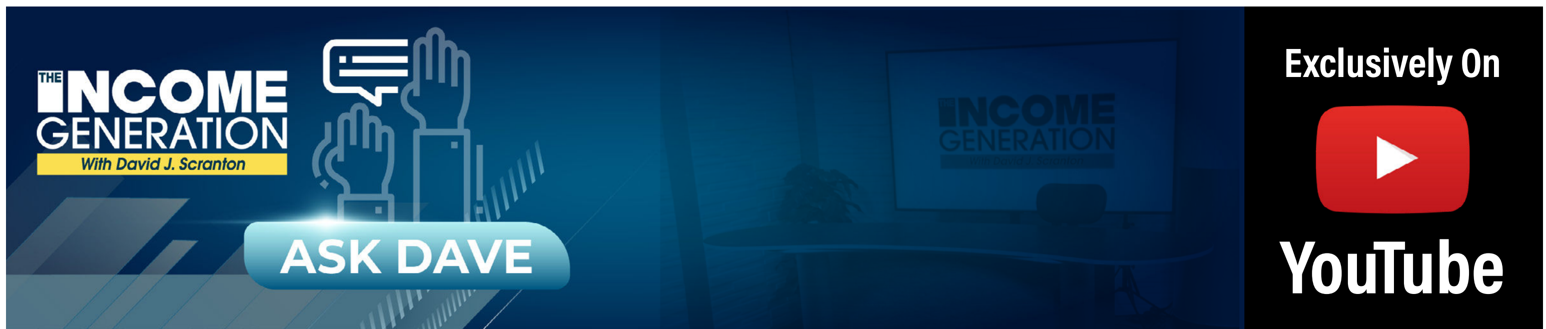
Being open to changing strategies
There are certain phases of growing assets that require a different approach and knowing when you are entering into another phase is critical for capitalizing on these opportunities.

Many times, when an investor begins saving for retirement, they begin investing in mutual funds and will often blow right past timely forks in the road to find themselves at retirement with the same approach as they had when they started. To compound the problem, some will even maintain this approach well into their retirement, never considering there may be a better way to hold assets.

Follow The Retirement Income Store on Facebook, LinkedIn, and YouTube

Gain Access To:

- Important updates on the financial markets
- Retirement income planning tips
- Financial education videos
- Free financial reports



(continued from page 3)

This is concerning because there is so much more that can be done to grow, utilize, and help protect assets if time would be taken to understand the possibilities.

Putting off difficult decisions

Procrastination is something many people struggle with. We all have things we really should get done that we don't want to deal with.

For retirees, the discussion around estate planning and long-term care brings to light our mortality and the realization that some will need assisted living later in life. No one wants to discuss this or face the possibilities while trying to plan for retirement but, the truth is that it is an ideal time to discuss it since your entire financial situation is being re-constructed to provide you with the means to retire.

There is a lot to take in from those who have paved the path before you and while some of these points may seem like common sense, the reality is that they are being followed.

DAVE'S CORNER

Thank You

ASK DAVE

Each week on my show, "The Income Generation," we cover topics that are important to those who are retired or nearing retirement. Since everyone'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.

Our first question comes from Brian of Louisiana, who asks: ***"Do you think it's better to buy or lease a car?"*** Generally, I'm not a fan of leasing because you're paying for the most expensive part of the car. On the other hand, if you have your own business or are self-employed and can write off the payment, leasing might make sense. Or, if you have a long-term plan where you intend to buy out the lease at the end, and the leasing terms are very favorable, then it might also make sense.

Our next question comes from Jeff in Ohio: ***"What are your thoughts on 401(k) loans?"*** Like zero-percent credit cards, 401(k) loans are a great myth. People think, "I'm paying interest but I'm paying it to myself, so it isn't really costing me anything." That's false because the real cost is the lost opportunity cost, which means what you could be earning on the money if you hadn't taken the loan. So, if you could earn an 8% average on that 401(k) over time then the cost of the loan is 8%. And because 401(k) loans must be paid back in five years, the cash flow is very high, so in some cases that makes it worse than a credit card.

THE INCOME GENERATION
With David J. Scranton

Catch Up on Recent Shows Featuring Steve Forbes, Jim Rogers, Harry Dent, Ed Slott, Marc Faber, and Robert Kiyosaki!

For over 5 years, *The Income Generation with David Scranton* has tackled the financial issues that matter most to those who are retired or nearing retirement. That hasn't changed. What has changed is that we are now posting all of our weekly shows to our YouTube Channel!

Visit *The Income Generation Show's* YouTube channel to:

- Watch new episodes each Sunday at 10 AM EST
- Gain access to exclusive content, behind the scenes videos, and more
- Discover the best ways to help generate steady income in retirement

© 2022 The Retirement Income Store®, LLC / Sound Income Strategies

All written content on this document is for information purposes only. Opinions expressed herein are solely those of The Retirement Income Store and our editorial staff. Material presented is believed to be from reliable sources; however, we make no representations as to its accuracy or completeness. All information and ideas should be discussed in detail with your individual advisor prior to implementation. Fee-based financial planning and Investment Advisory Services offered through Sound Income Strategies, LLC, an SEC Registered Investment Advisory Firm. The Retirement Income Store® , LLC and Sound Income Strategies, LLC are associated entities. This document shall in no way be construed or interpreted as a solicitation to sell or offer to sell Investment Advisory Services to any residents of states where otherwise legally permitted to conduct business.