

RETIREMENT REPORT

County of San Mateo, CA | Deferred Compensation Plan



Fall 2023

Cleared for Takeoff

Planning To Retire Within Five Years or so? Include These Three Exercises in Your Flight Plan

Whether you have a specific date in mind or not, choosing when to retire requires careful planning and preparation — even if you plan to continue working part-time. Here's a preflight planning checklist that can help you navigate a few of the uncertainties and move ahead with confidence.

Buckle Up and Make Sure Your Budget Is in Its Upright Position

Your first step is to get the most comprehensive, clear and accurate picture of your annual expenses that you can. For reference, collect your credit card statements and checking/savings account statements from the past 12 months (most banks and credit card companies let you download a yearly review of all your transactions organized into charts and graphs so you can get a clear look at your total annual spending). You may already have a good handle on your biggest expenses each month, like housing, transportation, food, cable and cell phone. You'll want to make sure to include other fixed costs, such as insurance (all coverages), haircuts or salon visits, gym memberships, streaming services, wellness exams and dental cleanings.

Perhaps the most important part of this step is to review all your one-off and variable purchases to better understand how they can impact your overall yearly spend. Reviewing these transactions can show you how much you really spent on coffee, home improvement projects, online purchases, manicures and pedicures, dining out, spur-of-the-moment weekend getaways and other items. Really digging into your entire year-in-review can also help you notice patterns in your spending, like when there are increases around vacations, holidays, birthdays and other annual events.

Inspect Your Retirement Income Sources

Now that you know what you'll need, it's time to inspect any sources of income you can count on each month in retirement. Some examples include:

- Social Security. This Social Security Quick Calculator (<https://www.ssa.gov/OACT/quickcalc/>) lets you estimate your monthly benefit checks. Try entering various retirement dates to see how waiting or claiming earlier will affect your checks.
- Income from rental properties.
- An annuity.



- A work pension (defined benefit plan).
- Withdrawals from retirement savings, such as a 401(k), 403(b) or 457 plan, or an IRA (a very general rule of thumb is to budget a 4% annual withdrawal rate from retirement accounts)

Avoid Turbulence With Healthcare Costs

While Medicare is a valuable benefit for those age 65 and older, it isn't free, and it doesn't cover everything.

Health-care costs include deductibles, premiums and things Medicare doesn't cover, such as prescription drugs, vision and dental care, hearing aids, home care and nursing homes. Therefore, before you retire:

- Start saving money toward covering these potential costs.
- Enroll in a health savings account to help reduce taxes (if available).
- Look into long-term-care insurance; it may be worthwhile if you are eligible and young enough to qualify for a reasonable rate.
- Do your research before signing up for Medicare. Will you choose Original Medicare and supplemental ("Medigap") insurance? Or will you choose Medicare Advantage, a popular type of private insurance coverage? Sign up for Medicare's newsletter to get updates and stay informed regarding all your options (<https://tinyurl.com/3h3mdby4>).

The Two Faces of Debt

Understanding Good Versus Bad Debt Can Help You Make Smart Financial Moves

Credit card debt is a huge challenge for many people. According to Debt.org, Americans owe \$986 billion on credit cards, surpassing the pre-pandemic high of \$927 billion. While credit card debt is considered “bad debt,” it’s important to understand other types of debt and the important role it can play in your financial plan.

Good Debt: A Building Block for Growing Your Wealth

Good debt refers to borrowing money for assets that have the potential to grow in value or provide future benefits. It focuses on investments that enhance your financial position in the long run. For example:

- Taking out a loan to finance certain types of affordable education can increase your earning potential and open up career opportunities.
- Using a mortgage for a reasonably priced home can help build equity and provide shelter.
- Taking a loan to buy a used car in great shape that enables you to get to and from work. However, going into debt on a luxury vehicle is going to be mostly bad debt.
- Getting a home equity loan to do repairs or upgrades on your residence.

Bad Debt: A Stumbling Block To Achieving Your Financial Goals

Whether you are considering good debt or bad debt, you want to be wise about your borrowing practices. Here are some key rules to follow when borrowing responsibly:

Necessity. Evaluate whether the debt is for an essential need or an investment that will improve your financial situation in the long run.

Affordability. Avoid taking on debt that stretches your finances to the breaking point. You may want to evaluate your debt-to-income ratio:

- The debt-to-income ratio compares an individual’s monthly debt payment to their monthly gross income.
- According to Investopedia, 43% is the highest debt-to-income ratio a borrower can have and still qualify for a mortgage.
- Lenders prefer a debt-to-income ratio lower than 36%.

Research and Compare. It’s a good idea to shop around for the best loan terms. Compare interest rates, fees and repayment terms from different lenders or financial institutions to secure the most favorable terms and save money in the long run.

Repayment. Stay on top of your repayment obligations and make payments on time. Late payments can lead to additional fees, higher interest rates and a negative impact on your credit score.

Communication. If you’re facing financial difficulties or anticipate challenges in making payments, reach out to your lenders proactively. They may offer assistance, such as revised repayment plans or hardship programs.



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Whom do I call for help?

Account Information

Balances | Investment Changes | Personal Info

Contact: Empower

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