GFC Report

Building Your Wealth & Retirement Income

GFC FINANCIAL MANAGEMENT

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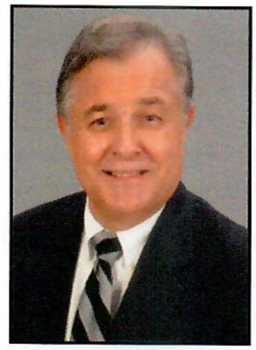
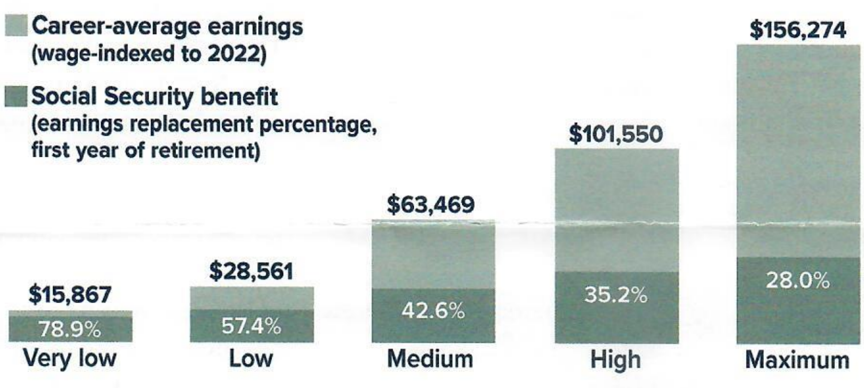


George F. Cerwin, CFP®
President

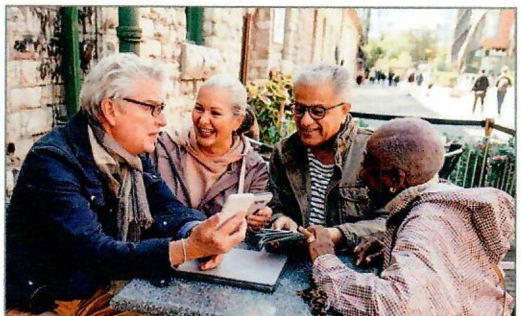
How Much Income Does Social Security Replace?

Social Security can play an important role in funding retirement, but it was never intended to be the only source of retirement income. The Social Security benefit formula is based on the average of a worker's 35 highest-earning years (indexed for inflation), and the percentage of pre-retirement income replaced by the benefit is lower for those with higher earnings, reflecting the assumption that higher earners can fund retirement from other sources.

Here are replacement rates — based on five levels of earnings — for someone who claims benefits at full retirement age (FRA) in 2024 (i.e., born in 1958 and claiming at age 66 and 8 months). Rates would be similar for those who claim at FRA in other years.



Source: Social Security Administration, 2023 (Rates are based on scheduled benefits under current law and may be significantly lower in the future if Congress does not address the Social Security shortfall.)



Maximum Benefits

To receive a maximum Social Security benefit, you must earn the maximum income subject to Social Security tax for each of your 35 highest-earning years. (This amount is indexed for inflation and has ranged from $25,900 in 1980 to $160,200 in 2023.) For someone who claimed benefits at full retirement age in 2023, the maximum monthly benefit would be $3,627. Someone who claimed at age 62 in 2023 would only be eligible for a maximum of $2,572, while someone who delayed claiming to age 70 in 2023 could receive a maximum of $4,555.

Source: Social Security Administration, 2023

PRACTICAL INSIGHTS FOR YOUR FINANCIAL GOALS

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Setting a Retirement Savings Goal

It's difficult to reach a destination unless you know where you're heading. Yet only 51% of workers or their spouses have tried to estimate the savings they would need to live comfortably in retirement.[1]

To get a start on establishing a retirement savings goal, use the simple worksheet on this page to compare the income you think you will need (or want) with the sources of income you expect.

How Much Income Will You Need?

Everyone's situation is different, but one common guideline is that you will need at least 70% to 80% of your pre-retirement income to meet your retirement expenses. This assumes that you will have paid off your mortgage, will have lower transportation and clothing expenses when you stop working, and will no longer be contributing to a retirement savings plan.

Although some expenses may be lower, others might increase, depending on your retirement lifestyle. Perhaps you want to travel more or engage in new activities.

Don't forget to budget for medical expenses. A recent study suggests that a couple who retired in 2022 at age 65 — with median prescription drug expenses and average Medigap premiums — might need $318,000 in savings to cover retirement health-care expenses (not including dental, vision, or long-term care).[2] This equates to about $12,720 annually over a 25-year retirement. Future retirees may face even higher costs.

Estimate Income Sources

You can estimate your monthly Social Security benefit at different retirement ages by establishing a *my* Social Security account at ***ssa.gov/myaccount***. The closer you are to retirement, the more accurate this estimate will be. If retirement is many years away, your benefit could be affected by changes to the Social Security system, but it might also rise as your salary increases and the Social Security Administration makes cost-of-living adjustments.

If you expect a pension from current or previous employment, you should be able to obtain an estimate from the employer.

Add other sources of income, such as from consulting or a part-time job, if some type of work is in your plans. Be realistic. Consulting can be lucrative, but part-time work often pays low wages, and working in retirement is less likely than you might expect. In 2023, 73% of workers expected to work for pay after retirement, but only 30% of retirees said they had actually done so.[3]

The income from your savings may depend on unpredictable market returns and the length of time you need your savings to last. Higher returns would enable your nest egg to grow faster, but it would be more prudent to use a modest rate of return in your calculations. Remember that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investments seeking higher rates of return also involve a higher degree of risk.

Moving Forward

A rough estimate of your retirement savings goal is a good beginning, and a professional assessment may be the next step. Although there is no assurance that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.

1–3) Employee Benefit Research Institute, 2023 (Health-care expenses include Medigap premiums, Medicare Part B premiums and deductibles, Medicare Part D premiums, and out-of-pocket prescription drug expenses; projection is based on a 90% chance of meeting expenses and assumes a 7.32% return on savings from age 65 until expenditures are made.)

GET STARTED

This worksheet might give you a general idea of the savings needed to generate your desired retirement income.

	Example	You
1. Annual retirement income desired	$80,000	
2. Expected income from sources such as Social Security or a pension	$30,000	
3. Income you need to generate from savings and investments (line 1 – line 2)	$50,000	
4. Savings needed to provide desired income for 25 years, assuming 5% annual return (line 3 x 14.1 income generation factor)*	$705,000	
5. Savings needed to provide desired income indefinitely, assuming 5% annual return (line 3 ÷ .05)	$1,000,000	

*Use a factor of 12.5 for 20 years or 15.4 for 30 years; factors are rounded.

This hypothetical example does not account for taxes or inflation and is used for illustrative purposes only. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

SECURE 2.0 Makes It Easier to Give and Receive

They say it's better to give than to receive, but doing both while reducing your income tax liability may be appealing. The SECURE 2.0 Act, included in the federal spending bill passed in late 2022, created two new giving opportunities that could do just that.

The new provision modifies the rules for qualified charitable distributions (QCDs), which allow a taxpayer who is age 70½ or older to contribute up to $100,000 annually from a traditional IRA to a qualified public charity. (The $100,000 limit will be indexed for inflation beginning in 2024.) While the contribution is not tax-deductible, the distribution — which would normally be subject to ordinary income tax — is not taxable. And the QCD can satisfy all or part of your required minimum distribution, which might otherwise increase your taxable income.

Under the new rules, up to $50,000 of one year's QCD limit can be used to fund a charitable gift annuity (CGA) or a charitable remainder trust (CRT), either of which could provide a lifetime income in return for the gift. The option can only be used once in your lifetime, but multiple gifts can be made in the same year, up to the $50,000 limit. Your spouse can also use the $50,000 limit, so a couple could make up to a $100,000 bequest.

Charitable Gift Annuity

A charitable gift annuity is a contract between you and a charitable organization that generally guarantees a fixed payment in return for the bequest. Payments can be made monthly, quarterly, semiannually, or annually, and extend for the lifetime of the beneficiary(ies). These annuities are not new, but they previously could not be funded from an IRA. CGAs are commonly offered by colleges and universities, as well as by many other organizations.

Charitable Remainder Trust

When you place assets in a charitable remainder trust, you designate an income beneficiary or beneficiaries to receive specified payments for a term of up to 20 years or for the lifetime of the beneficiary(ies). Income payments must be made at least once a year and may be fixed or variable depending on the type of CRT. Upon the end of the term or the death of the beneficiary(ies), the assets in the trust go to the charity.

Rules for the QCD Opportunity

Funding a CGA or CRT from sources outside your IRA has more flexible rules. For example, you can gift highly appreciated assets such as stocks — which could have other tax benefits — and you can designate a beneficiary other than you or your spouse. For the QCD option, the funds must be distributed directly from the IRA trustee to the CGA or CRT, and the beneficiary(ies) must be you or you and your spouse. Here are some other key points.

POTENTIAL PAYOUTS

These are sample annual payouts for one individual from a $50,000 gift annuity, based on suggested 2023 maximum rates from the American Council on Gift Annuities. Actual payouts may differ, and rates can change with economic conditions. Payouts for two people depend on both ages.

Source: American Council on Gift Annuities, 2023

- The minimum payout rate is 5%. The CRT maximum rate is generally 50%; maximum CGA rates generally target a residual value of at least 50%. Payouts must begin less than one year after making the bequest.
- Although the contribution is not tax-deductible, it must pass the 10% test for tax-deductible contributions, meaning the charitable value must be more than 10% of the contribution.
- All payments are taxable at the recipient's ordinary income tax rate.
- Only a new CRT can be funded by the QCD option, and a QCD-funded CRT cannot receive other funding from the IRA or other donated assets.

Although payments from a CGA or CRT are guaranteed under the terms of the contract, the guarantee depends on the strength of the charitable organization. If you choose to fund a CRT, keep in mind that the use of trusts involves a complex web of tax rules and regulations, and there are initial costs and ongoing expenses. You should consider the counsel of experienced estate planning, legal, and tax professionals before implementing trust strategies or funding a gift annuity.

Debit or Credit — What's the Difference?

The end of the year is a time for holiday shopping, and many consumers face the new year with high credit card bills. If that sounds familiar, you might wish you had bought some of those gifts directly out of your bank account with a debit card instead of putting off payment with a credit card — and risking the potential for high interest charges if you can't pay on time. But there are good reasons to use a credit card for certain transactions.

PICK YOUR PLASTIC

Consumers use debit cards more often than credit cards, but the average value of credit card transactions is higher than that of debit card transactions. This suggests debit cards are typically used for regular expenses and credit cards for "extras."

	Debit	Credit
Annual transactions	106.0 billion	51.1 billion
Total value	$4.6 trillion	$4.9 trillion
Average transaction value	$43	$96

Source: Federal Reserve, 2023 (2021 data, most recent available)

Fraud protection. In general, you are liable for no more than $50 in fraudulent credit card charges. For debit cards, a $50 limit applies only if a lost card or PIN is reported within two business days. The limit is $500 if reported within 60 days after receiving your statement, with unlimited liability after that. A credit card may be safer in higher-risk situations, such as when shopping online, when the card will leave your sight (as in a restaurant), or when you are concerned about a card reader. If you regularly use a debit card in these situations, you may want to maintain a lower checking balance and keep most of your funds in savings.

Merchant disputes. You can dispute a credit card charge before paying your bill and should not have to pay it while the charge is under dispute. Disputing a debit card charge can be more difficult when the charge has been deducted from your account, and it may take some time before the funds are returned. Also, merchants sometimes place a temporary hold on your account until a charge clears; for example, a hotel may place a hold for the full amount of your stay plus incidentals. If the situation changes, this could be more difficult to reverse with a debit card.

Rewards and extra benefits. Whereas debit cards offer little or no additional benefits, some credit cards offer cash-back rewards, and major cards typically include extra benefits such as travel insurance, extended warranties, and secondary collision and theft coverage for rental cars (up to policy limits). Of course, if you do not pay your credit card bill in full each month, the interest could far outweigh any financial rewards.

Credit history. Using a credit card can affect your credit score positively or negatively, depending on how you use it. A debit card has no effect on your credit.

Considering the additional protections and benefits, a credit card may be a better choice in some situations — but only if you pay your monthly bill on time. Also be aware that some merchants charge more for using a credit card than a debit card, passing their own fees to the consumer.

Do you have a clear goal for your retirement savings and a realistic strategy to reach it? Call us for an appointment today.

Best Regards,

George F. Cerwin, CFP®, CLU is President of GFC Financial Management and has over 45 years of experience working with retirees and those about to retire. George offers Securities and Investment Advisory Services through **Osaic Wealth, Inc.** member FINRA and SIPC. Insurance Services offered through GFC Financial Management, not affiliated with **Osaic Wealth.** Visit our website: www.gfcfinancial.com. Our office address is 2764 Sunset Point Road, #600, Clearwater, FL 33759, and phone number 727-724-9499.

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