

Retirement Matters

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 prepandemic 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 investments 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 your education can increase your earning potential and open up career opportunities.
- Using a mortgage for a reasonably priced home can help 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

Bad debt involves borrowing money for purchases that quickly lose value or do not generate income. Credit card debt that piles up from impulsive shopping sprees or luxury vacations falls into this category.

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. ☺

Maximizing Your Retirement Income

Doing Some Tax Planning Now Can Pay Off Later in Retirement

For many people, retirement is not a time to slow down and stop. It's a time to explore the next great chapters of your life and build upon everything you've learned and experienced so far. Another thing that doesn't slow down or stop is taxes. Understanding how taxes could affect your future cash flow will help you create an effective retirement income strategy.

Know How Your Retirement Savings Accounts Are Taxed

Withdrawals from traditional 401(k) plan accounts and certain other employer-sponsored plans, as well as traditional individual retirement accounts (IRAs), will generally be subject to federal and state ordinary income taxes upon withdrawal. On the other hand, contributions to a designated Roth 401(k) account or Roth IRA are federally tax-free when you withdraw those funds, as are the earnings, assuming the withdrawal is a qualified distribution, which generally means it is made after a five-year waiting period and the account owner is 59½ years or older.

As for your nonretirement accounts, bond income and some of the dividends you receive from stocks and mutual funds may be taxed at your federal ordinary income rate, but qualified dividends and long-term investment gains are generally taxed at lower long-term capital gains rates. State and local tax treatment may vary.

It's prudent to consult with an advisor or tax professional regarding retirement income and tax planning strategies.

Develop a Thoughtful Distribution Strategy

For some people, it will make sense to consider tapping taxable accounts first, then tax-deferred. But, depending on the circumstances, this order may not be right for every person. If most of your investment gains are from long-term assets held outside of a traditional 401(k), IRA or other similar tax-deferred accounts, you'll likely pay long-term capital gains taxes, which are generally lower than what you pay on distributions taxed as ordinary income from your tax-deferred retirement accounts.

You'll also need to consider the impact of your retirement savings on your taxes once you reach age 73 (or age 75 after 2032). That's when you must begin taking required minimum distributions (RMDs) from some of your retirement accounts, which is likely to boost your taxable income.



Avoid Moves That Could Put You in a Higher Tax Bracket

RMDs and other changes that bump up your income can result in what's called "bracket creep," which is unintentionally slipping into a higher tax bracket. For example, you might receive an inheritance or sell some real estate. You might also slip into a higher tax bracket by taking a large distribution from a taxable account to renovate your home or buy a new car. A higher income can also affect the taxability of your Social Security benefits and increase your Medicare premiums.

This is one reason you may want to consider funding different kinds of retirement accounts during your working years. For instance, you could diversify your retirement contributions and split them between a Roth and traditional (pretax) allocation. During retirement, you can manage the amount of taxable income you receive and make adjustments when necessary. You can also pay for qualified medical expenses during retirement with any health savings account savings you may have. Those qualified withdrawals are tax-free and won't affect your taxable income. ☺

Gut Feeling

Make a Healthy Belly Part of Your Wellness Plan

Your gut is not just where you digest your food. It's also where you have trillions of tiny organisms that help you stay healthy, happy and smart. Here are some things you should know about your gut and how to make it stronger.

What Is Gut Health?

Gut health is all about the balance of microorganisms that live in the digestive tract. These microorganisms, also called the gut microbiome, help you break down food, get nutrients, fight inflammation and boost immunity. Gut health also affects your mental health, mood and brain function. In fact, your gut microbiome can produce vitamins, hormones, neurotransmitters and other substances that affect your metabolism, appetite, weight, mood, memory and cognition. It also interacts with your immune system and modulates your response to infections, allergies, autoimmune diseases and cancer.

How Can You Improve Your Gut Health?

There are many things that can mess up your gut health, like what you eat, how stressed you are, how much you sleep, what drugs you take and what toxins you're exposed to. To improve your gut health, try these tips:

Eat foods that have prebiotics, which help the microbes already in your microbiome to grow by giving them the foods they like. Prebiotics are found in many fruits and vegetables containing complex carbohydrates, such as fiber. You may already have these foods in your pantry or fridge, including apples, bananas, berries, carrots, flax seed, garlic, oats and sweet potatoes. Fiber feeds the good microorganisms in your gut and, as a special bonus, helps you with bathroom exercise number two.

Eat more fermented foods, like yogurt, kefir, sauerkraut, kimchi and kombucha. Fermented foods have probiotics, which can improve your gut microbiome and immune system.

Avoid or limit processed foods, added sugars, artificial sweeteners, alcohol and antibiotics. These foods can mess up your gut microbiome and cause inflammation.

Manage your stress levels. Stress can affect your gut-brain connection and change your gut microbiome. Try to relax with things like meditation, yoga, breathing exercises or hobbies.

Get enough sleep. Not sleeping enough can hurt your gut wall function and increase inflammation. Aim for at least seven hours of good sleep per night.

Exercise regularly. Moving your body can make your gut move better and gut microbiome more diverse. Aim for at least 150 minutes of moderate-intensity exercise per week.

By following these tips, you can improve your gut health and enjoy the benefits for your whole body and mind. Remember to talk to your doctor before making any big changes to your diet or lifestyle. ☺



Retirement in Motion

Tips and Resources That Everyone Can Use

Knowledge is Retirement Power

Thanks to the passage of SECURE Act 2.0 at the end of last year, the age for starting required minimum distributions from your 401(k) has been increased from age 72 to age 73 for individuals who attained age 72 after December 31, 2022. It will increase again, to age 75, for individuals who attain age 74 after December 31, 2032. In addition, the act reduced the excise tax for failure to take required minimum distributions from 50% to 25%; for RMD failures corrected in a “timely manner,” the excise tax is further reduced to 10%.

Q & A

Are there any tricks to paying down credit card debt? I'd love to put the money in my 401(k) instead!

Try the avalanche or snowball method. In each you'll focus on making extra payments to one debt — while continuing to make the minimum payment on all other debts.

- With the avalanche method, you tackle the loan with the highest interest rate first, which could save you more on interest.
- With the snowball method, you start with your lowest-balance loan, which could be emotionally satisfying as you clear away smaller, lingering debts first.

¹ “What Does it Cost to Raise a Child?” (The Washington Post, October 13, 2022)

Tools and Techniques

Raising a child is expensive. From the day a baby is born until the day they turn 18, a typical family will spend about \$310,605 — or about \$17,000 a year, according to a recent Brookings Institution report.¹ If you're planning to start a family (or already have), there are a number of smart financial moves to consider. If you haven't already created a will and thought about contingency plans for your child or children, consider doing it now. Other steps to take could include setting up power of attorney and health care directives. In addition, after any big change in your life, it's a good idea to check the beneficiaries named on your financial accounts and insurance to ensure that they are up-to-date and reflect your current wishes. And finally, it's never too early to explore 529 college savings plans — which offer flexibility, tax advantages and long-term growth potential.

Quarterly Reminder

When it comes to your retirement account, your recordkeeper likely already prompts you to change your password every quarter. But is it as strong and unique as it should be? To make creating and managing passwords easier, many people subscribe to password manager services. Check out Consumer Reports for ratings on various service providers, as well as more password tips: <https://tinyurl.com/36m7vukw>. In addition, you should use different passwords for different accounts, never write them down, and never type passwords on devices or networks that you do not control. ☹

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