5 KEYS TO RETIREMENT PLANNING IN 2022

MOORE'S WEALTH MANAGEMENT

"Protecting Your Future"

It's a New Year, and that's something to celebrate! This year is the year for a renewed focus on **planning** and **preparation** in the **five key areas of retirement planning:**

- **INCOME PLANNING**
- **INVESTING**
- **TAXES**
- **ESTATE & LEGACY PLANNING**
- **HEALTHCARE**

These are the building blocks of any solid retirement plan, and this guide will detail each one. Whether 2022 is the year when you retire or not, it's the year to create a truly comprehensive retirement plan that addresses each of these areas.

INCOME PLANNING

Retirement income can come from a few places, and most retirees can rely on Social Security. Claiming your maximum benefit is an important part of creating a retirement income strategy. Here's what to know about Social Security in 2022.

Social Security in 2022

The Social Security trust fund is now expected to be depleted by 2034, according to a recent report from the Social Security and Medicare trustees. Once the Social Security trust fund runs out, payroll taxes will be able to cover about 78% of promised benefits.[1] While these facts might seem to pose an existential threat to the program, that is not quite the case. It's very unlikely that Washington will ever scrap Social Security entirely, but lawmakers could reduce benefits and/or increase taxes in the future. We can speculate, but your more immediate concern should be creating a strategy to maximize your benefit.

Social Security Changes in 2022:

Benefits Will Increase by 5.9%: Social Security beneficiaries will see the biggest cost-of-living increase in 40 years in 2022. This is due to high inflation during much of 2021.

Did You Know? The Senior Citizens League estimates that the average Social Security benefit has lost a third of its buying power since 2000. This has happened mostly because benefit increases have not kept up with the increasing cost of prescription drugs, food, and housing.[2]

1 https://www.cnn.com/2021/08/31/politics/social-security-medicare-report/index.html
2 https://www.ssa.gov/cola/

3 Things to Know About Claiming Social Security:

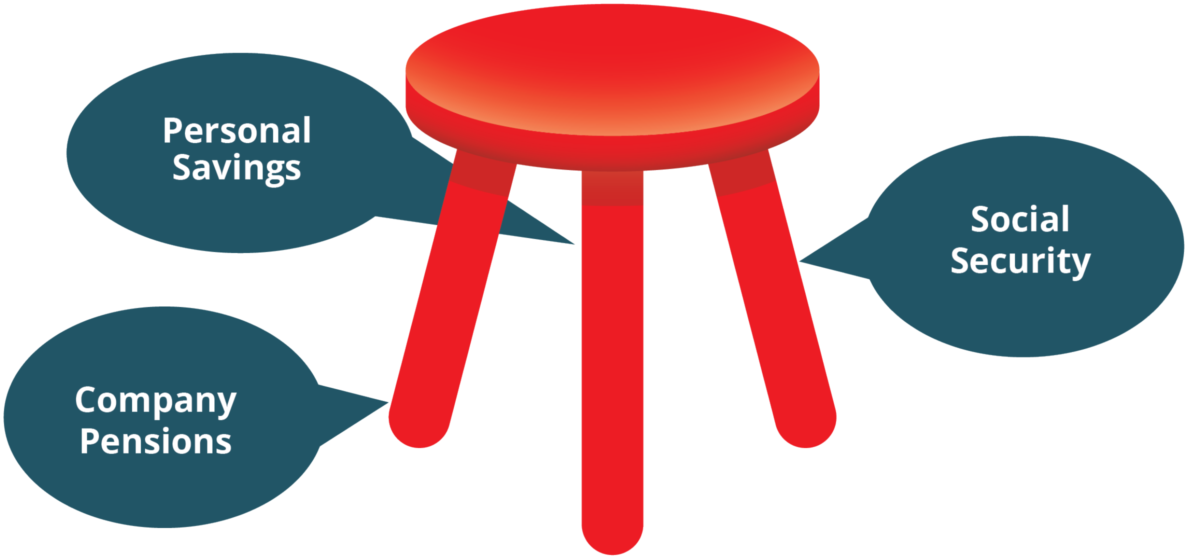
1 The earliest you can claim Social Security benefits is age 62. However, claiming benefits before your full retirement age will result in a permanently smaller benefit. If you wait to claim past your full retirement age, your benefit will increase by 8% per year you defer until age 70 for beneficiaries born in 1943 or after.[3] Consider what age you will claim benefits and know your full retirement age.

2 Earning income while receiving a Social Security benefit may reduce your benefit. Social Security beneficiaries under their full retirement age who earn more than $19,560 in 2022 will have $1 withheld for every $2 they earn above this limit. This earnings limit jumps to $51,960 once recipients reach their full retirement age.[4] Earnings are defined as the wages you make from your job, including any bonuses, commissions, and vacation pay, or your net earnings if you're self-employed.[5]

3 If you have reached your full retirement age and have been married for at least one year, you can claim a Social Security spousal benefit worth up to 50% of your spouse's benefit. You will receive less than 50% of your spouse's benefit if you claim spousal benefits before your full retirement age, but you will not receive more than 50% by waiting past your full retirement age to claim.[6]

3 https://www.ssa.gov/benefits/retirement/planner/delayret.html
4 https://www.ssa.gov/news/press/factsheets/colafacts2021.pdf
5 https://www.investopedia.com/2022-social-security-cola-largest-in-20-years-5205588
6 https://www.ssa.gov/benefits/retirement/planner/applying7.html

Where Will the Rest of Your Retirement Income Come From?



Retirement income used to consist of 3 elements for many retirees: Savings, a pension, and a Social Security benefit. Now that most retirees don't have a company pension, personal savings must stretch farther. If you're looking to create additional reliable retirement income to supplement your Social Security benefit, you might consider an annuity.

An annuity is an insurance-based financial product that an individual pays a lump sum into in exchange for a stream of payments over a period of time. It is the opposite of life insurance – it potentially helps protect against outliving your money by offering a steady income stream either for a defined period or for life. It can also help protect against market risk while offering a rate of return. There are different types of annuities and ways to customize them to your individual needs. After a year of record market ups and downs and near-zero interest rates, you may consider an annuity when planning for retirement.

There are several types of annuities, and they can pay out differently depending on their terms. There are fixed annuities that pay out the same rate regardless of market ups and downs, indexed annuities that pay out an amount based on an external index, and variable annuities that pay based on investment performance.[7]

There are also guaranteed lifetime annuities that provide payments for life and period-certain annuities that can distribute funds for a pre-determined amount of time. They can also pay a remainder to a surviving spouse in the event of the original owner's death. There are also riders that can provide more flexibility and customization. For example, a cost of living rider can help hedge against inflation by raising the monthly income by a particular percentage every year.[8]

There are pros and cons to each, and the right kind of annuity depends on the individual's situation. If you do choose to include an annuity in your retirement income plan, we can help you choose from the many options available.

7 https://www.investopedia.com/articles/retirement/09/choosing-annuity.asp#:~:text=There%20are%20three%20main%20types,fixed%2C%20variable%2C%20and%20indexed.

8 https://www.annuity.org/annuities/riders/

WHAT'S YOUR INVESTMENT PLAN?

No one can predict the market, and you may not want to risk potentially losing what you've saved just before you retire. Your risk tolerance may have decreased as you've gotten closer to retirement or have retired, and your investment plan should take this into account. Those aren't easy decisions, especially when you consider market volatility, increasing average lifespans, and low interest rates. Here are three things to put on your New Year's resolution list:

- Assess your investment strategy
- Assess your risk tolerance
- Create a retirement investment plan based on your retirement goals and risk tolerance

The effects of a market correction around the time of your retirement could be detrimental. So what can you do to help protect yourself from market volatility?

- One solution is having a source of guaranteed income that can cover basic, fixed expenses.
- It's also important to decide how much investment risk to take in retirement and manage investment risk by reviewing investment choices.
- Insurance can help you manage risk by reducing your exposure to certain events, like unexpected healthcare expenses.
- Diversify – there are so many investment options out there!

TAX MINIMIZATION

Taxes can often be our single largest expense. Between taxes on your retirement account withdrawals, real estate holdings, Social Security benefits, and investments, you may be leaving a substantial amount of money on the table without a comprehensive tax minimization strategy in place. Do you have a long-term tax minimization strategy, or are you only focused on minimizing your tax burden on a year-to-year basis?

After a period of significant spending during the COVID-19 pandemic, federal and state governments could raise taxes to make up losses. We could be experiencing relatively low tax rates now.

So, what can you do today to help minimize your taxes tomorrow? Rather than tax planning just on a yearly basis, create a long-term tax minimization plan. It could include:

- A Roth IRA conversion
- Real Estate Investment
- Strategic asset allocation
- An annuity
- Using a life insurance policy
- Charitable giving
- Using a Health Savings Account (HSA)

Preparing For This Tax Season:

Here are some deductions you may be able to take advantage of:

- Qualified medical and dental treatments, potentially deductible if they add up to 7.5% of 2021 adjusted gross income.
- Investment losses of up to $3,000.
- Qualified mortgage interest paid on the first $1 million of mortgage debt for homes bought before December 16th, 2017.
- Charitable contributions to qualified charities
- Qualified education expenses of up to $4,000 for single filers with income of up to $80,000, or $160,000 for married couples filing jointly.
- Half of the 15.3% payroll tax imposed on the self-employed.
- Health insurance for the self-employed.
- A certain portion of long-term care insurance premiums.
- Home office deduction.
- Early withdrawal penalties from a CD.
- Up to $10,000 in state and local property taxes.[9]

The right strategy to minimize taxes really depends on your goals and unique financial situation. A tax minimization strategy should work in concert with your overall retirement plan, including your estate and investment plan.

9 https://www.irs.gov/credits-deductions-for-individuals

ESTATE PLANNING

An estimated $68 trillion will pass from Baby Boomers to their beneficiaries over the next 30 years in the biggest wealth transfer in history.[10] Regardless of how much money you plan to pass down to your loved ones, you may need an estate plan. This should include talking to loved ones about money, creating the necessary estate planning documents, and working to minimize taxes.

Important Estate Planning Documents:

- A will
- A trust, either revocable or irrevocable
- An advanced Medical Directive
- Financial Power of Attorney

What documents you need will depend on your unique financial situation, legacy goals, and family situation. The most important thing is not to put off creating or updating your estate plan and the documents you need.

10 https://www.cnbc.com/2019/10/21/what-the-68-trillion-great-wealth-transfer-means-for-advisors.html

Estate Planning Hurdle: The SECURE Act

The SECURE Act eliminated the 'stretch IRA,' an estate planning strategy that allowed heirs to stretch out distributions over their lifetime. Now, most non-spouse beneficiaries must empty inherited accounts within ten years of the original owner's death. This means less time for funds to grow tax-free and a potentially larger tax burden for beneficiaries.[11] Keep in mind that the new rule doesn't apply to retirement accounts inherited before 2020. And there are some exceptions where heirs don't have to drain the account in ten years:

- A spouse
- A minor child
- Heirs not more than ten years younger than the original owner
- Disabled or chronically ill individuals[12]

There are some tax-efficient strategies retirees may be able to use when creating an estate plan, such as:

- A step-up in basis, where tax is based on the value of the asset at the time of inheritance and not when it was originally purchased. Assets can receive a step-up in basis so that beneficiaries pay less in capital gains tax.
- A partial or full Roth conversion, which will help minimize taxes on inherited retirement accounts.
- Using proceeds from life insurance, which can be received income tax-free if policies are structured correctly.

11 https://www.forbes.com/sites/martinshenkman/2019/12/25/secure-act-new-ira-rules-change-your-estate-plan/#5baf1150710f
12 https://www.forbes.com/sites/martinshenkman/2019/12/25/secure-act-new-ira-rules-change-your-estate-plan/#5baf1150710f

HEALTHCARE & LONG TERM CARE

Medicare Advantage General Enrollment Period:

Are you a Medicare beneficiary? Medicare Advantage Open Enrollment Period and Medicare General Enrollment Period start January 1st and run until March 31st. During this time, you can:

- Sign up for Medicare Parts A and B
    - Part B coverage will begin on July 1st
- Change from one Medicare Advantage Plan to another
- Change from Medicare Advantage to Original Medicare[13]

The Basics of Medicare:

- **Part A** helps cover hospital stays, home health care, skilled nursing, and hospice.
- **Part B** helps cover doctor's visits, outpatient procedures, and some preventative care.
- **Part C** is supplemental insurance and can put a limit on your out-of-pocket costs and cover costs Parts A and B don't, such as dental and vision.
- **Part D** helps cover prescription drug costs.[14]

It's important to know what Medicare parts A and B don't cover:

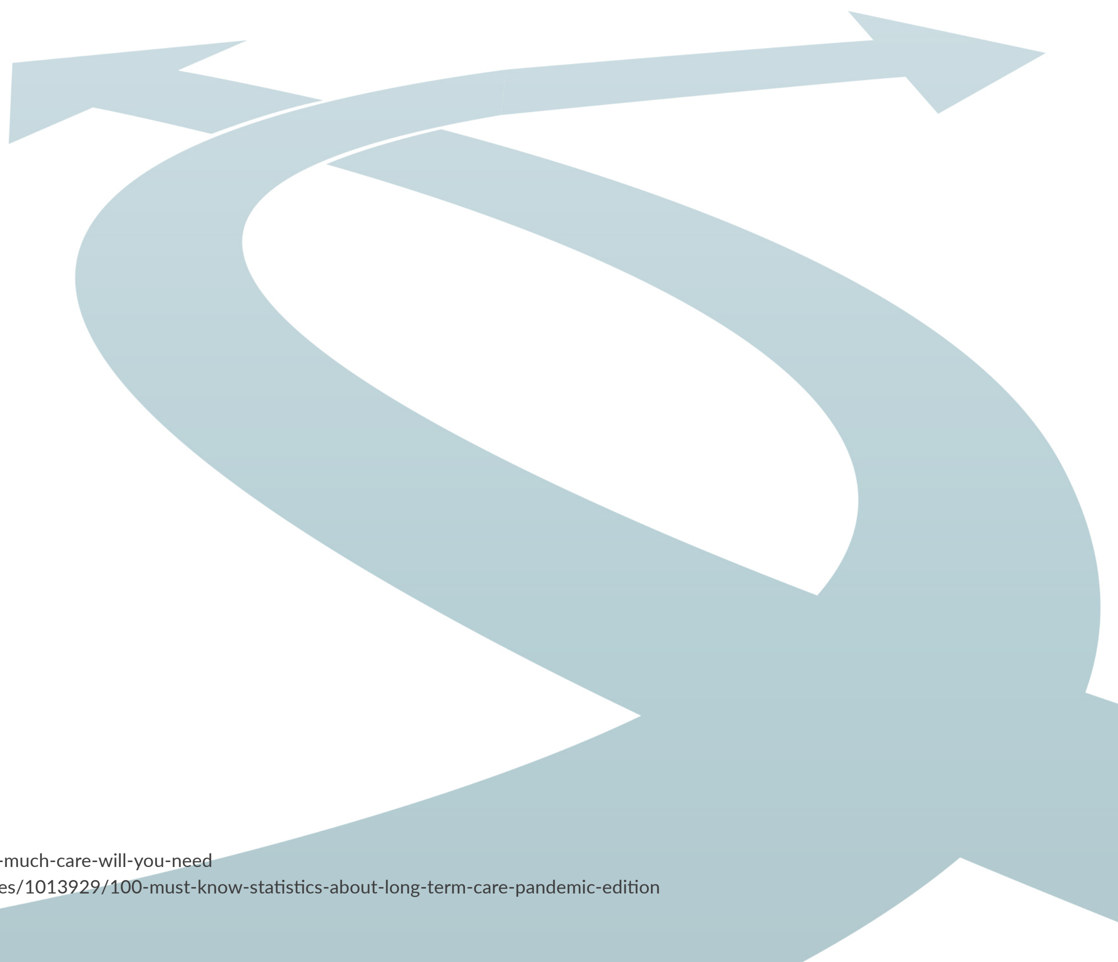
- Prescription drugs
- Deductibles and co-pays
- Most dental care
- Routine vision care
- Hearing aids
- Medical care outside of the U.S.
- Long-term care costs[15]

13 http://www.horsesmouth.com/gfx/pdf/RetirementChecklist2020Sample_Navy.pdf
14 https://www.medicare.gov/drug-coverage-part-d
15 https://www.medicare.gov/what-medicare-covers/whats-not-covered-by-part-a-part-b

What's Your Long-term Care Plan?

Long-term care services have been shifting from hospitals and nursing homes to individuals' homes instead. This was happening before the pandemic, but the trend has accelerated even more. Even though you're a long time away from needing long-term care, now is the time to plan. An estimated 70% of Americans currently age 65 will need long-term care at some point[16] and costs can be staggering. A private room in a nursing could be over $100,000 per year on average.[17]

Medicare will only cover long-term care for a limited period, and paying out-of-pocket can be quite expensive. There are several other options for covering costs, including long-term care insurance, qualifying for Medicaid, an annuity with long-term care benefits, and a hybrid policy. The right strategy depends on your individual situation, and you can explore your options with our team.



16 https://acl.gov/ltc/basic-needs/how-much-care-will-you-need
17 https://www.morningstar.com/articles/1013929/100-must-know-statistics-about-long-term-care-pandemic-edition

Take Control of Your Financial Future in 2021!

Whether you have a plan for some or none of the five key areas of retirement planning, we can help you create a cohesive strategy that works to address all of your concerns. If your financial situation changed in 2021, or if you're rethinking your retirement strategy, come talk to us. Here's what we hope to be to you:

- Someone who cares about, asks about, and understands your concerns and will take the time to address them.
- Someone willing to spend the time to educate you on all of your investment options and how they work.
- Someone who clearly explains how they are compensated.
- Someone you are comfortable trusting with your financial well-being and have confidence will be there for your family when needed.

If you have more questions about any of the key areas of retirement planning, read our content that looks at these topics in greater depth, or sign up for a complimentary review. Living well tomorrow starts today - we hope to see you so we can start discussing your retirement goals and creating a plan to help achieve them.

Moore's Wealth Management
"Protecting Your Future"

www.mooreswealthmanagement.com
(770) 535-5000

GAINESVILLE OFFICE
230 Main St SW
Gainesville, GA 30501

CUMMING OFFICE
410 Peachtree Pkwy
Bldg. 400 Suite 4245
Cumming, GA 30041

ATHENS OFFICE
1551 Jennings Mill Road
Suite 2600-D
Watkinsville, GA 30677

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