ATHENA WEALTH STRATEGIES

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QUARTERLY NEWSLETTER

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What's In This Quarter's Issue:

NEW YEAR, SAME YOU

BY: ROBIN STARR

How many times this week have I heard the term “new year, new you”?

Too many. 😑

Though I think people are starting to catch on. Something about the disruption of the past three years, perhaps, has made more people realize that there is no sudden moment when we change.

When we go from dissatisfied with ourselves to proud of who we are.

When we go from people who order delivery every night to people who cook a week’s worth of from-scratch meals on Sunday afternoon.

Or from 10k in credit card debt to a million dollar 401(k).

Life isn’t a movie montage where inspiration hits and we’re transformed.

It’s a series of slow steps. Of reasonable actions. If we start each year trying to be someone we’re not, of course we’re going to end up dissatisfied.

The stories of extreme savings rates and drastic transformations may feel inspiring, but they can also be de-motivating. As we start a new year, there’s no need to be someone different.

Be yourself who and where you are, but headed in the direction you want to go, small steps at a time.

It will get a little easier every month, every year. Ask for help if you need it – from someone who will help you up, not put you down.

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EVEN MORE SECURE?

CHANGES ARE COMING TO YOUR RETIREMENT SAVINGS.

BY: ROBIN STARR

SECURE Act 2.0 recently passed as part of the recent congressional budget and contains a number of provisions that impact financial planning. Some are focused on those just getting started with saving and others impact distributions in retirement. A look at some of the biggest changes:

Required Minimum Distributions

The age for Required Minimum Distributions (or RMDs) is going up again. Though the age was recently increased to 72, now anyone born in 1951 through 1959 won't have to start distributions until age 73. For those born in 1960 or later, RMDs won't start until age 75. While many retirees need to withdraw the required amount or more to cover their living expenses, for others it will present new flexibility and planning opportunities.

In addition to the start date changing, the penalty for missing an RMD will drop. Previously, a missed RMD could be subject to a penalty of 50%. This will drop to 10-25% of the missed amount, depending how quickly an error is corrected.

Roth Expansions

There are several changes that impact Roth IRA and retirement plans and offer further flexibility to savers. SEP and SIMPLE IRAs will be allowed to have Roth provisions and employer contributions will be able to be made to a Roth account (though this election will cause the employee to have additional tax due). In addition, for 529 beneficiaries who do not attend college or otherwise leave money behind in a 529 account, there will be an allowance for transferring unused money to a Roth IRA.

In addition, the previous rules included a quirk where Roth IRAs were exempt from Required Minimum Distributions but Roth 401(k), 403(b) and other employer plans were not. With SECURE 2.0, the RMD requirement will be eliminated from Roth money in employer retirement plans.

Catch-Up Contributions

The IRA catch-up contribution has allowed savers 50 and over to put an additional $1,000/year into their IRA and Roth IRA accounts. This $1,000 will now be indexed for inflation each year in increments of $100.

In addition to the age 50+ catch-up contributions ($1,000 for an IRA and $7,500 for an employer plan), SECURE 2.0 adds an additional catch-up amount for workers aged 60-63. Employer plan participants in this age range will be able to contribute an additional $10,000, indexed for inflation (or 150% of the 50+ catch-up amount, if greater).

Note that all catch-up contributions will have an additional rule impacting them for higher-income wage earners. Any participant whose prior-year salary exceeded $145,000, indexed for inflation, will need to make catch-up contributions to a Roth, rather than a Pre-Tax, account.

Emergency Withdrawals and Penalty Exceptions

The new law creates several additional categories under which a distribution before age 59 ½ will be exempt from the 10% penalty (but not from income taxes). These relate to certain types of public safety workers over age 50, those who are terminally ill (with a life expectancy due to illness of less than 7 years), or who are victims of domestic violence or natural disasters.

In addition, emergency withdrawals can be made free of the 10% penalty for a broad range of unforeseeable personal or family emergency expenses. While the definition is very broad, these penalty-free emergency withdrawals will be limited to one distribution of $1,000 or less per year. In addition, no new emergency distribution can be made within 3 years unless the original withdrawal has been repaid (or contributions have exceeded the amount withdrawn).

In addition to allowing for emergency withdrawals from retirement plans, the law authorizes employers to set up after-tax Emergency Savings Accounts linked to existing 401(k) and 403(b) accounts. These will allow non-highly compensated employees to save up to $2,500 for shorter-term needs while still benefiting from an employer 401(k) match.

Similarly, starting in 2024 the law allows employers to provide an employer match to employees who are paying down student loan debt in lieu of contributing to the employer's retirement plan.

The law – one portion of a larger budget bill – is vast. This is only a sample of the provisions that we consider most relevant to the widest group of savers and retirees. While unlike the original SECURE Act, there are few SECURE 2.0 provisions that will restrict flexibility for taxpayers, there are many, many new rules around employer plans, small business retirement savings, and IRA accounts. Implementing the new law will require additional regulation clarifying some of the new rules and significant changes for account holders, employers, and custodians.

With complexity comes opportunity so if you have any questions about what you've seen in the news or how it could impact you and your money, please don't hesitate to reach out.

** Lincoln Financial Advisors and its representatives do not offer tax or legal advice.*
Individuals should consult their tax or legal professionals regarding their specific circumstances.

"I SEE IT, I LIKE IT, I WANT IT, I GOT IT"

By: Julie VanTilburg

I was introduced to this song, 7 Rings, by Ariana Grande by Robin as the team was discussing how to help clients or prospective clients who are overspending. Some people can afford to buy whatever suits their fancy – either because their income is very high or their wants are very inexpensive – but most of us cannot. For most people, a mentality of buying without thinking or planning can blow up either in the immediate and/or the long-term.

Common red flags include little to no cash savings or debt balances that are growing over time.

While these can be immediate flashing signs in the short term, sometimes issues are more subtle. It takes a financial plan to identify whether a more subtle, longer term issue is being created such as under saving for retirement or not being in a position to withstand any sort of unexpected expense or shock to one's earning ability. While growing credit card debt is an obvious sign, creating a mess for one's survivors or not being in position to cover healthcare expenses, a period out of work or major car repairs can be harder to see at first glance. Absent that look into the future, you won't know there is a problem until it is a problem and possibly too late to solve.

In a lot of cases, though, it doesn't take a detailed plan to know that spending is unsustainable. When that's the case, the next step may be to figure out why expenses exceed income.

Breaking down where the money is going can reveal more. Sometimes it's not an issue of overspending so much as insufficient income. If the bare necessities aren't being covered, it's important to look at whether this is a temporary or permanent situation. If temporary, credit can be an option (such as student loans to help pay for college) but it's important to look at both the current and future impact of relying on debt as a bridge. Sometimes it's the expenses that are temporary, such as a daycare which requires pulling from savings or cutting expenses dramatically in other areas until kids are old enough to start school.

In other cases, the spending itself is the issue. While we don't encourage people to forego all joys in life, prioritization is often necessary. For some people this prioritization comes naturally, but for others it can feel like an exercise in self-denial. In the most extreme cases, splurging on oneself becomes compulsive, like with gambling or drug addiction. While helping those with psychological baggage or addictive spending is beyond our training, we encourage all clients whose cash flow is unsustainable to figure out why and deal with the root source of the problem – whether an underpaying job, a temporary situation, spending without thinking, or an even deeper issue.

Insufficient savings and excess spending can lead to all kinds of hazards that breed more hazards. For example, with insufficient savings and/or growing debt, an unexpected expense such as a car repair or roof leaks the problem magnifies. Growing credit card debt can eventually burst. Between interest rates exceeding 20% and the potential to reach one's credit limit and no longer be able to afford truly necessary items, lack of savings for emergencies can lead to a cascade of issues and potentially to bankruptcy.

First steps to figure out whether this is a risk you face include:

- Checking your emergency fund. While ideally you should have 3-6 months' spending available in cash for emergencies, setting aside just a little bit each paycheck can help get you on the right track.

- Know where your money is being spent. There are a number of tools that can be used: our planning portal offers this capability but you may already have this tracked at your bank or using software such as Mint or Quicken. A lower-tech option such as a spreadsheet or keeping a running list each month can be a good option, forcing you to think about spending as it happens. Sometimes just knowing where the money is going and knowing that we'll be reviewing this again in the future is enough to make us more conscious of where our money is going.

- Identify potential for increased income and/or decrease spending. Start with the spending you get the least value from. If you routinely order from Amazon and let the boxes sit unopened for days or weeks, start there!

- If there is an area of discretionary spending that needs to be dialed down, give yourself a specific budget amount and a system in place to monitor and cease spending upon hitting limit.

- Put plan in writing and have an accountability partner.

Taking an inventory of your situation can help figure out whether you have an issue and where that issue lies. Sometimes a major change in income or fixed costs, such as a job change or move may be needed to make ends meet. In the most extreme situations, it may be about changing a mindset of compulsion.

* In many cases, though, simply becoming more aware of where the money is going can be enough to cut out the expense that aren't bringing value and make your lifestyle sustainable for the long run.

*If you or a loved one is experiencing an addiction or mania spending, I found this article insightful: https://www.healthline.com/health/addiction/shopping.

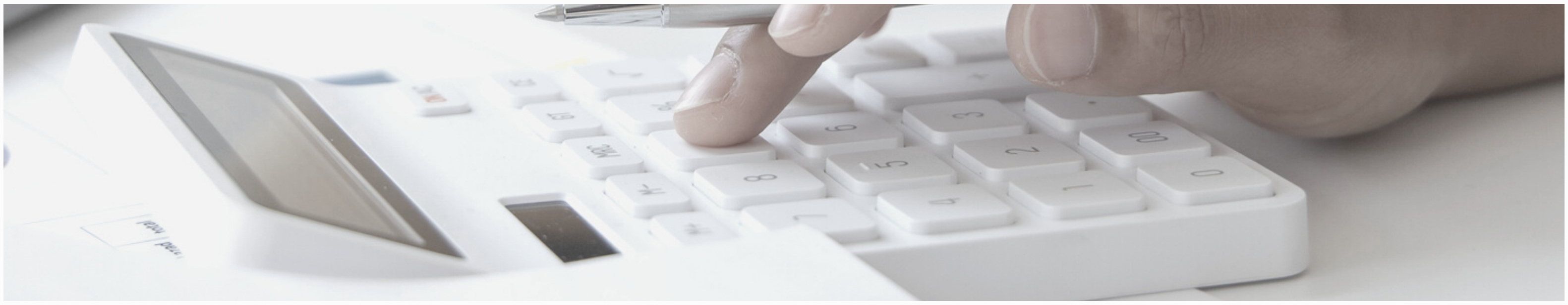
APPROACHING SAVINGS FROM DIFFERENT PERSPECTIVES

The Fed's Interest Rate Increase is a Demand for Your Cash

By: Maritza Rogers

When you think about money, it comes down to how you earn it, how you spend it, and the various demands for your dollars. With high demand on goods, shortages of supplies, and changes in the labor force, inflation became the main threat to our economy in 2022.

There is an equilibrium between inflation and interest rates and the impact on the economy. Increasing the money supply makes each individual dollar worth less. This can stimulate the economy but at the cost of higher inflation. The Federal Reserve System handles the monetary policy that influences how money functions in the financial system and controls the target borrowing rate, "Fed rate," which dictates interest rates in the economy. In 2020-2021, the Fed increased the money supply and lowered rates attempting to prevent a pandemic-driven recession.



In 2022, however, the situation changed. The economy rebounded and then some. Goods and services were in short supply and prices were rising. As a result, the Fed implemented a contractionary monetary policy, increasing the Fed rate 7 times last year to a target range of 4.25- 4.5 percent. The Federal Reserve indicated that the fed rate will continue to rise in 2023.

Although borrowing costs are up, it that also means that rates for savers finally began to rise, though there is dramatic variation between the rates being offered on deposit accounts. Bond rates, including Treasuries (bills, notes, and bonds), municipal bonds, and corporate debt are being issued at higher rates. However, many of the largest banks continue to pay very low interest rates so the higher rates are benefitting some savers more than others.

Here are the questions you should be asking to optimize what you earn on your cash:

What are online banks all about?

Online banks generally offer account holders higher interest rates because they do not have the overhead that many brick-and-mortar banks have. Some banks have only savings accounts and no ATM access so you will need to do your research and look at the pros and cons for each bank you are considering.

- Do your research and choose a bank based on your needs and the banking features you need such as what type of accounts are available- checking accounts, high-yield saving and CD rates.
- Consider the pros and cons for each bank. If you need an ATM often, do they offer those near you or refund fees from outside networks?
- What are the qualifications in order to earn the Annual Percentage Yield (APY)? Is there a minimum account balance and, if so, would your account qualify for the highest rate? Be sure to always review the banks overall financial health, customer-service, and website ratings. In the event of bank failure, the FDIC will provide some degree of coverage to banks and the NCUA to credit unions, but some larger accounts may not qualify for full protection.
- Read the terms and conditions

Here are some of the larger online banks to consider evaluating:

- Ally
- American Express
- Barclays
- Capital One 360
- Discover
- Marcus by Goldman Sachs
- Synchrony Bank
- Sofi Bank

Please note that these are not recommendations but are merely examples of what is available. Before opening an account, remember to compare your options to find the best fit for your financial needs.

So where do I find these high-yield savings accounts?

Online banks are competing for your cash with interest rates ranging between 3% to over 4% with the average rate at 3.3% APY* (Jan, 2023).
Some great resources to evaluate online banks are at DepositAccounts and Bankrate.

** https://www.wsj.com/buyside/personal-finance/four-percent-savings-rates-january-2023-01673543935*

Should I consider a Certificates of Deposit (CDs)?

Certificates of Deposit (CDs) are where you lock in your cash for a certain amount of time. Online banks offered an average yield of 4.15%* on a 12-month CD (Dec, 2022). The risk is interest rates going up while you are locked into a current rate – or investing money you need before the time is up.

The rate of a CD needs to be high enough to justify locking up your money for the intended term.

Other options you can consider are:

- Risk-free CDs do not penalize you for withdrawing the funds early, but you are looking at much lower rates than regular CD rates.
- Rate bump CDs give you the option to lock-in a new rate for the remainder of the term as interest rates rise. However, the bump-up rates usually start lower than you would normally see for the same time period of a regular CD.
- Brokered CDs purchased through a brokerage firm within a brokerage account.

What is the deal with the bond market?

Let's first start with what a bond is. A bond is a type of loan issued by corporations, governments, and other entities and sold to investors. In return, the investor will earn interest for a fixed period of time and, when the time is up, the issuer repays the bond in full. The coupon rate is the nominal yield on the face value of the bond. Typically, bonds pay interest twice a year based on the coupon rate on the bond value at purchase.

Bond investors face risks such as interest rate risk, re-investment risk, inflation risk, liquidity risk, default risk, etc. There is an inverse relationship between interest rates and bond values.As interest rates rise, bond values decrease and vice versa. What we have seen in the bond market is prices for existing bonds dropping rapidly as the interest rate rises. This is because rising rates mean investors can buy brand new bonds paying a higher rate.

As prices decline, the interest rate as a percentage of the cost of the bond rises. For example, a bond paying $3/year may feel stingy at $100. But if the price drops to $80, you're getting a higher portion of your investment returned in interest each year.

* https://www.freep.com/story/money/personal-finance/susan-tompor/2022/12/22/cd-interest-rates-higher-2023-inflation/69715869007/

What are laddered bond strategies?

This is for investors who are seeking a steady of income with a goal of increasing their return in a rising interest rate environment. With interest rates increasing, a conservative approach is to spread out the maturity dates of multiple bonds. By purchasing bonds with different maturity dates, when a bond matures the funds can be reinvested in a newly issued bond at the higher rates. A bond ladder is designed based on the average period of time that a bond is to be held until maturity. By having a set of bonds mature (and getting the original par value back) and reinvesting in new bonds or utilizing that cash over a period of time, risks such as market risk and reinvestment risk are somewhat mitigated.

A short-duration bond strategy may be where an investor holds bonds with maturities at 3 months from one another. For example, an investor holds 5 separate treasury notes maturing on 3/31/2023, 6/30/2023, 9/30/2023, 12/31/2023, and 3/31/2024. The first note matures on 3/31/2023, is redeemed at par value with the coupon's interest for that maturity date. The investor buys a new note set to mature 15 months out for a maturity of 6/30/2024. With interest rates rising, this allows the investor's effective interest rate to increase over time with 3-month reinvestment intervals. This two-year U.S Treasury note issued on 1/3/2023, has a coupon rate of 4.25% with the price per $100 purchased at a slight discount allowing the yield-to-maturity being higher than the coupon rate. Since treasury notes are in circulation, the investor has the ability to purchase notes maturing much sooner than the 2-year maturity.

** This is a hypothetical example for illustrative purposes. The performance is not indicative of the performance of any particular investment or strategy.*

While there are many options to help increase the return on your cash, not all of them are fully liquid or risk-free. It's important to look not just at the interest rate being advertised but the type of instrument. FDIC savings and money market accounts can be appropriate for an emergency fund, even if they're held away from your regular bank or credit union, but other options either add risk or limit liquidity. These may be more appropriate for extra cash beyond a 3 to 6-month cushion or money that might be needed within 3-5 years or more. If you're looking at your bank account statement and still receiving an interest rate well under 1%, it may be time to shop around, revisit your financial plan, and figure out how to make your money work more for you.

** Bonds have fixed principal value and yield if held to maturity. Prices of fixed-income securities may fluctuate due to inflation, credit and interest rate changes. Investors may lose money if bonds are sold before maturity.*

Virtual Events:

Missed a Webinar?

Past webinars can be viewed on Athena's website under the "Current Topics & Events" tab. Listed below are some of the topics available:

- *Guide to the Markets with J.P. Morgan*
- *Signs of Dementia & Aging - How to Plan for the Future*
- *How to Be Prepared for Fire Season in California*
- *"I Owe How Much?!" Understanding and Taking Control of Your Student Loans*
- *"What If?" Parent Contingency Planning*

Visit Athena's website to access the webinar recordings today!

www.athenawealthstrategies.com

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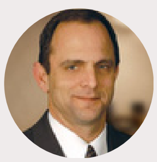

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