TPE TIMES

A comprehensive, holistic guide to financial wellness.

Q4 | 2020

How Much Will I Recieve in Social Security?

Since its creation in 1935, Social Security has provided a base level of financial support to retired and disabled workers. The decline in availability of company-sponsored pensions since the 1970s has led to Social Security becoming one of the "three legs" of the retirement income stool along with retirement accounts, like 401(k)s and personal savings.

Social Security benefits are earned by working jobs in which you pay FICA or self-employment taxes. Generally, you need 40 credits to qualify. A maximum of four credits per year can be accrued — one for each $1,410 in taxable earnings. However, there are a few other ways to qualify, such as if you're the spouse, widow, widower or dependent of a qualified worker. You can also obtain benefits early if you become disabled — even if you don't earn 40 credits.

You can elect to receive Social Security benefits at age 62, but you'll receive less than your full benefit if you do. You'll get full benefits (100% of benefits calculated based on earnings) if you wait until your full retirement age (67 if you were born after 1960). And You'll be eligible for delayed retirement credits if you postpone receiving benefits until after you reach your full retirement age (calculated based on when you were born). Benefits are adjusted incrementally each month — lower if you elect to receive early, and higher if you wait until after you reach your full retirement age. You can receive the maximum monthly benefit if you wait until age 70.

I Qualify, But for How Much?

The average monthly Social Security benefit amount as of January 2020 is $1,510 with a maximum monthly benefit of $3,011 for someone receiving full benefits. Your benefit is determined by your average monthly wage during your 35 highest-earning years. The system will account any missing years as $0, so people who do not work the full timeframe receive a smaller benefit compared to similar earners who meet the requirement.

And here's where the ambiguity begins. Your 35 highest-earning years may not be until the final phase of your career, so your benefit amount can change as you approach retirement. Also, there are cost-of-living adjustments to Social Security benefits each January, which are tied to the previous year's rate of inflation.

Continued on PG3

Holiday Spending...don't procrastinate! One of the surest ways to overspend is to wait until the last minute and buy all your gifts in a rush. Not only are you more likely to overspend, but it also makes an already stressful time of the year even more so. Start working on your holiday shopping now to alleviate some of that stress now!

Contact us at 1.888.968.9168 or by e-mail at wellness@theparticipanteffect.com.

Alternatives to Raiding Your 401 (k)

It's rarely the plan, but it happens — you're faced with a financial crisis and have to find extra funds fast. The need may arise from many circumstances including a medical emergency, costly home repairs, job loss or escalating credit card debt.

While it can be very tempting to withdraw or borrow from your retirement account, it's important to fully explore other options before doing so. Early withdrawals can come with hefty penalties depending on your age, and there's the opportunity cost of not staying fully invested over time — as well as the risk of cashing out when markets are down. Additional complications can ensue should you lose your job before you can repay the loan. Here are some alternatives to consider as you weigh your options.

Tap your emergency fund. This should be one of the first places you turn to in a crisis. Hopefully, you have at least three months worth of expenses tucked away in a low risk, highly liquid savings vehicle, such as a high interest savings account. If you haven't already established an emergency fund, now is the time to start building one up.

Sell other investments or assets. Look at nonretirement investment vehicles before touching your 401(k). Discuss the available options with your financial advisor to help decide what makes the most sense to liquidate while avoiding penalties and fees if possible.

Tap home equity. Consider using a home equity loan or line of credit (HELOC) instead of your retirement account. Another option is to refinance your mortgage and cash out, which may offer the added benefit of securing a lower interest rate on your home loan. Of course, with these options you can also incur significant closing and other costs so it's important to do your research first. Just remember using your house as collateral brings its own set of risks as well.

Borrow from family. This option comes with some pretty significant caveats and isn't the best choice for everyone. If for whatever reason, you're unable to repay the loan, you can potentially put some of your most important relationships at risk. If you decide to keep it "in the family," map out specific terms for repayment including interest and put everything in writing. An alternative to a loan from a family member or friend is online peer-to-peer (P2P) lending services.

Take on a side hustle. If time is on your side, you can do a little freelance work to cover your shortfall. Whether it's graphic design, music lessons, yard work or Ubering, there are a lot of options available to you in the new gig economy. A few weeks or months of extra work may be all that you need to avoid touching your 401(k).

Apply for a personal loan. These loans can either be secured or unsecured. Putting up your car, savings account or other assets as collateral may help you obtain a lower interest rate and more favorable terms while avoiding steep penalties and other disadvantages of tapping your 401(k). But this also places those collateralized assets at risk if you default on the loan. Be sure to read the fine print carefully before signing on for this option.

If you're faced with a financial hardship, a good first step is often to set up a meeting with your TPE financial advisor. Depending on the nature of the crisis and your individual circumstances, he or she may be able to come up with other options to address your situation while keeping you on track to reach your retirement goals.

Don't Miss Our Q4 Webinar!
December 3rd at 10AM EST
'Long-Term Care Planning'

Approximately 52% of us will need some type of long-term care services during our lifetimes at some point after we reach age 65. This isn't meant to scare you, but rather to remind you that the need for long-term care can happen to anyone at any time. The need to be prepared is real, and something that you shouldn't ignore. Join us to understand how to be prepared!

Visit our Webinar page to sign up at:

https://www.theparticipanteffect.com/webinar

Food Fun Facts!

Apples give you more energy than coffee! The coffee snobs may not don't want to believe it, but it's true. If you're ever a little low on energy during the afternoon, then consider munching into an apple instead of buying a cup of coffee. Thanks to its high carbohydrate, fiber, vitamin C and mineral content, eating apples are the perfect (and healthy) option to help you stay energized all day.

How To Make a Frittata

Ingredients:

6 large eggs, enough to cover the ingredients
1/4 cup heavy cream
1 teaspoon kosher salt, divided
4 slices thick-cut bacon (8 ounces), chopped (optional)
2 small Yukon gold potatoes, peeled and thinly sliced
1/4 teaspoon freshly ground black pepper
2 cups baby spinach (2 ounces)
2 cloves garlic, minced
2 teaspoons fresh thyme leaves
1 cup shredded cheese, such as Gruyère, Fontina, or Cheddar (optional)

Directions:

Arrange a rack in the middle of the oven and heat to 400°F. Whisk the eggs, heavy cream, and 1/2 teaspoon salt together in a small bowl; set aside. Place the bacon in a cold 10- to 12-inch nonstick ovensafe frying pan or cast iron skillet, then turn the heat to medium-high. Stir occasionally, until crisp, 8 to 10 minutes. Remove the bacon with a slotted spoon to a paper towel-lined plate and pour off all but 2 tablespoons of the fat. (If omitting the bacon, heat 2 tablespoons oil in the skillet, then proceed with adding the potatoes). Saute the potatoes in bacon fat. Return the pan to medium-heat, add the potatoes and sprinkle with the pepper and the remaining 1/2 teaspoon salt. Cook, stirring occasionally, until tender and lightly browned, 4 to 6 minutes. Pile the spinach into the pan with the garlic and thyme, and cook, stirring, for 30 seconds to 1 minute or until spinach wilts. Add the bacon back to the pan and stir to evenly distribute.Add the cheese. Spread the vegetables into an even layer, flattening with a spatula. Sprinkle the cheese on top and let it just start to melt. Pour the egg mixture over the vegetables and cheese. Tilt the pan to make sure the eggs settle evenly over all the vegetables. Cook for a minute or two until you see the eggs at the edges of the pan beginning to set. Bake until the eggs are set, 8 to 10 minutes. To check, cut a small slit in the center of the frittata. If raw eggs run into the cut, bake for another few minutes; if the eggs are set, pull the frittata from the oven. For a browned, crispy top, run the frittata under the broiler for a minute or two at the end of cooking. Cool and serve. Cool in the pan for 5 minutes, then slice into wedges and serve.

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Continued from PG 1

Don't forget that Social Security benefits are subject to income tax depending on other income you receive from a pension, 401(k)/IRA withdrawals and other sources. Your Medicare Part B deductible may also come out of your Social Security benefit.

Wait, It's an Estimate?
You can't know with certainty the exact amount you'll receive as a monthly benefit until you actually retire. If you're at the end of your career and closing in on retirement, the projection should be pretty close. If you're mid-career, however, the estimates may be less accurate.

The Social Security Administration mails annual account statements to workers over age 60 who do not have a "my Social Security" online account. The statement includes their estimate of monthly retirement benefits based on its forecast of future earnings.

Accessing Your Information Online
To look up your SSA information online, you need to create an account at www.ssa.gov/my account and click on "Create an Account" and then follow the prompts. You'll need to be over 18 years old with a Social Security number, a valid U.S. postal address and an e-mail address. Once you sign up, the SSA will send you a security code to enter to complete your registration. After you register, you can see your account and get an updated monthly benefit estimate online. You can also get information about your account by calling the SSA.

Trying to project your Social Security benefits can be a complex and multifaceted issue. Consult your TPE financial advisor to better understand how Social Security can play a part in a sound retirement plan.

The Psychology of Debt

Personal debt problems can arise from numerous circumstances, including health crises, theft, property damage, or loss of income. These situations are beyond the debtor's control and arise through no fault of his or her own. But in other cases, it's our own purchasing decisions that contribute to amassing a burdensome amount of debt, and it's entirely avoidable. So why do so many people make this "unforced error" in their financial decision-making?

To better grasp this self-defeating behavior, it helps to understand the psychology of debt.

Why We Accrue Debt
According to Psychology Today, experimental research shows that people tend to spend more when making purchases with credit cards versus cash. One study revealed that people were willing to spend $175 for supplies to throw a party when paying with a credit card, but only $145 when using cash.

One potential reason for this spending difference is the degree of transparency of the payment method — the more transparent, the less we tend to spend. Cash is the most transparent method and therefore is associated with reduced spending, while credit cards and gift cards are less transparent and tend to be associated with greater spending. Other explanations for increased spending when using credit cards relate to the increased delay from the time of a credit purchase to when the bill is due and the fact that individual purchases are less recognizable on a lump sum bill as both reducing the "pain of paying."

There have even been studies suggesting that the mere presence of credit card branding (i.e. logos) may prime buyers to want to spend more. This could occur much in the same way that the smell of bacon sizzling on the stove can stimulate the appetite. In effect, we become conditioned to associate credit cards with the desire to spend.

The Psychology of Debt Reduction
The avalanche method and the snowball method are two popular debt reduction strategies. According to the avalanche method, debts are ranked in terms of their interest rates from highest to lowest. You start by paying off the debt with the highest interest rate and work your way down the list to the debt with the lowest interest rate. This approach has the potential to save the greatest amount of money over time, yet can be harder psychologically to stick with.

The snowball method, on the other hand, has debtors start by paying off their smallest balance first and gradually working their way up to the largest balance. While this approach will not save the most money, it can often build psychological momentum because you pay off individual balances more quickly and rack up more frequent "wins." At the end of the day, the debt repayment plan that works best is always the one you're most likely to stick with over the long haul. And that means it isn't always all about the numbers — psychology and motivation can also play a big part.

Debt and Stress
Money can be a leading cause of psychological and financial stress for many American families. Among households that comprise the bottom 60% of income (earners with take-home pay of $65,000 or less), about one-third are "stressed," meaning they have financial obligations in excess of 30% of their income and not enough emergency cash on hand to cover six months of expenses. Among households earning $23,000 or less, nearly half were in this position.

This type of financial stress often leads to psychological stress and can ultimately have negative impacts on physical health. According to WebMD, one study of 8,400 young adults found that a high degree of debt relative to available assets was associated with higher levels of stress and depression, worse self-reported overall health and higher diastolic blood pressure.

Dealing with Debt Distress
There are a number of things you can do to mitigate the negative psychological impact of debt. First and foremost, try to avoid accruing significant debt or adding to the amount of debt you already have if possible. Use cash more often and avoid recreational shopping and the temptation it can bring. Second, work with your financial advisor to come up with a debt reduction plan you can stick with. Simply knowing you have a plan and are working to correct the situation over time can be helpful. Finally, recognize whether your debt is causing you significant psychological distress. Understand that many people feel just like you, and seek out social support and professional help, if necessary, to better manage and cope with this all-too-common stressor.

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From Our Team to you and your loved ones - We hope that everyone is safe and healthy. We are here for you whenever you need us. Thank you for being a part of The Participant Effect.

If you have any questions or would like to learn more please call or e-mail us at:

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