



# CrossPlans

## Retirement Plan Strategies

Your Retirement Planning Newsletter

## Rx for Success

*Preventive care strategies to help you deal with healthcare expenses in retirement*

According to the 2021 Fidelity Retiree Health Care Cost Estimate, an average retired couple age 65 may need approximately \$300,000 saved (after tax) to cover health care expenses in retirement. There are a number of factors behind this escalating cost challenge. In general, people are living longer and health care inflation continues to outpace the rate of general inflation. In addition, according to Gallup's 2021 Economy and Personal Finance Survey, the average retirement age is 62, which is 3 years before the Medicare eligibility age of 65.

Of course, the amount you'll personally need will depend on when you retire, how healthy you are, and how long you live. Whether retirement is a long way off for you, or it's starting to get closer, it's a smart move to start planning for health care costs.

### Understand the Timing Trade-Offs

As retirement nears, you will have several big decisions to make, including when to stop working, when to take Social Security, how to pay for health care, and how to generate cash flow from your retirement assets. These decisions are interconnected and could make a difference in your living costs and lifestyle in retirement — and when you can retire.

According to the Social Security Administration, approximately one-third of early retirees who claim Social Security at age 62 do so to help pay for health care expenses until they are eligible for Medicare coverage at age 65. But if you can postpone retirement or save enough to cover health care costs until 65, then you may be able to defer your Social Security benefits. Generally speaking, the longer you can wait until age 70 to take Social Security benefits, the more you can collect.

### Save as Much as You Can

Now is the time to save as much as you can, especially if you are within 10 years of retirement. In 2022, you can contribute up to \$20,500; if you're age 50 or older, you can make an additional catch-up contribution up to \$6,500, for a total contribution of \$27,000. If you can't save that much, just make sure you are saving enough to get your full employer match, if offered.



### Take Advantage of a Health Savings Account

If you have access to a health savings account (HSA) through your employee benefits, they are a financially smart way to set aside money for expenses related to your health. Contributions reduce your taxable income, and earnings growth and qualified withdrawals are also tax-free. Many programs allow you to invest your HSA money once you hit a certain threshold. This makes it a great way to save for future health expenses during retirement. For 2022, you can contribute a maximum of \$3,650 (individual coverage) and \$7,300 (family). For those age 55 or older, the Internal Revenue Service allows an additional catch-up contribution of \$1,000.

### Rx Retrospective

Rx is commonly known as the symbol for a medical prescription. However, the symbol is derived from the Latin word recipe or "recipere," which means "to take." The word was later abbreviated and became Rx as we know it today.

### CrossPlans

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# Heart of the Matter

*Managing your blood pressure is a key component of a healthy heart*

In 2021, the Centers for Disease Control and Prevention reported that nearly half of adults in the United States (47%) have hypertension, defined as a systolic blood pressure greater than 130 millimeter of mercury (mmHg) or a diastolic blood pressure greater than 80 mmHg (or are taking medication for hypertension). Having hypertension puts you at risk for heart disease and stroke, which are leading causes of death in the United States. Here are some best practices for managing your blood pressure and staying heart-healthy.

## Step 1: Understand Your Readings

The first step to managing blood pressure is to understand what the levels mean and what is considered normal, elevated and high blood pressure (hypertension). Blood pressure is typically recorded as two numbers: 117/76. These numbers are read as “117 over 76 millimeters of mercury” and represent two factors:

- **Systolic:** The top number, the higher of the two numbers, measures the pressure in the arteries when the heart beats (when the heart muscle contracts).
- **Diastolic:** The bottom number, the lower of the two numbers, measures the pressure in the arteries when the heart is resting between heart beats.

## Step 2: Be Aware of the Blood Pressure Categories<sup>1</sup>

Blood pressure readings fall into four categories:

- **Normal:** systolic less than 120 mmHg and diastolic less than 80 mmHg
- **Elevated Blood Pressure:** diastolic 120 to 129 mmHg and diastolic less than 80 mmHg.
- **High Blood Pressure (Hypertension) Stage 1:** systolic 130 to 139 mmHg or diastolic 80 to 89 mmHg.
- **High Blood Pressure (Hypertension) Stage 2:** systolic 140 or higher mmHg or diastolic 90 or higher mmHg.

Health care providers can take your blood pressure readings and provide recommendations. In addition, there are several at-home blood pressure monitors available that you can use to track your blood pressure on a consistent basis.



## Step 3: Do Your Part to Stay Heart-Healthy

**Eat Smart:** Eat a healthy diet of vegetables, fruits, whole grains, beans, legumes, nuts, plant-based proteins, lean animal proteins and fish. Limit sodium, saturated fats and added sugars. Limit sugary foods and drinks, fatty or processed meats, salty foods, refined carbohydrates and highly processed foods.

**Move More:** Physical activity helps control blood pressure, weight and stress levels.

**Manage Weight:** If you're overweight, even a slight weight loss can reduce high blood pressure.

**Don't Smoke:** Every time you smoke, vape or use tobacco, the nicotine can cause a temporary increase in blood pressure.

**Sleep Well:** Short sleep (less than 6 hours) and poor-quality sleep are associated with high blood pressure.

<sup>1</sup> Guidelines first published in 2017 by the American College of Cardiology and the American Heart Association.

Sources: American Heart Association; Centers for Disease Control and Prevention.

# Deconstructing Your Debt-to-Income Ratio

*Use this tool to help keep your debt in check and improve financial wellness*

Your debt-to-income ratio (or DTI) measures your monthly debt payment against your monthly income (before taxes or before other deductions have been made). To calculate your DTI, add your total monthly debt payments and divide them by your total pretax monthly income. For example, if you pay \$200 a month toward your car loan and another \$800 toward your mortgage, your monthly debt payments are \$1,000. If your pretax monthly income is \$4,000, your DTI is 25% (\$1,000 divided by \$4,000).

Guidelines vary widely, but in general, a DTI of 35% or less is preferred by lenders (closer to 20% is ideal), whereas a DTI over 45% is likely to be considered problematic. Lenders use your DTI ratio to measure your ability to manage debt — so having a low DTI is very important, especially when it comes to buying a home, car or other major asset. The following are some ways to lower your DTI ratio.

## Pay Off Debt

Surprise! While it's easier said than done, reducing your debt can help you reduce your monthly payments, and therefore the percentage of your monthly income going toward debt. Aside from lowering your DTI, paying off your debt can also improve your credit score by reducing your credit utilization ratio, which is your total debt divided by your total available credit. A higher credit score could help improve your chances of qualifying for a mortgage or getting a favorable interest rate.

## Increase Your Income

Increasing your income is another way to reduce your DTI. Not only will you have a higher gross income for the calculation, but you'll also have the opportunity to put more money toward your debt, which can further reduce your DTI. A few ways you might increase your income include working toward a work promotion, working overtime or picking up a second job or side gig.

## Lower Your Monthly Payments

By reducing your monthly debt payments, you can reduce the percentage of your income being used for debt. There are several ways to lower your monthly payments, including refinancing your loans or negotiating the interest rate on



your debt. While negotiating your interest rate may be possible for credit cards, installment loans — like personal loans, auto loans or student loans — will likely require a refinance to adjust the rate.

## Reduce Your Nonessential Spending

Look at where your money is going every month and cut back as much as you can. For example, are you paying for things like subscriptions that you no longer need? Freeing up that extra money in your monthly budget means you'll have more available to pay off debt. And the more quickly you can pay off debt, the more quickly you can reduce your DTI.

## Increase Your Down Payment

When lenders calculate your DTI, they consider the impact of a mortgage loan on your finances and aim to keep your DTI with your mortgage under a certain level. You can reduce your DTI when you own a home by putting down a larger down payment, which will result in lower mortgage payments each month.



# Retirement in Motion

## TIPS AND RESOURCES THAT EVERYONE CAN USE

### Knowledge Is Retirement Power

Roth options have become a common choice in many 401(k) plans, as well as 403(b) and 457 plans. The appeal with a Roth plan is the potential tax savings when distributions are made in retirement years. Money that goes into a Roth plan today is taxed today, but all earnings and future qualified distributions are free of tax. With traditional 401(k) plans, money goes in tax-free (and all future growth is free from tax), but qualified distributions are taxed at ordinary income rates. Check out AARP's calculator at [https://www.aarp.org/work/retirement-planning/roth\\_vs\\_traditional\\_401k\\_calculator.html](https://www.aarp.org/work/retirement-planning/roth_vs_traditional_401k_calculator.html) to help determine which option might be right for you — and how it could affect your paycheck.

### Q&A

#### What is the most I can save this year in my 401(k) plan?

401(k) savers can contribute up to \$20,500 in 2022. Savers age 50 and older can make an annual catch-up contribution up to \$6,500 in 2022, for a total contribution of \$27,000. These limits also apply to savers with a 403(b) plan and most 457 plans.

### Corner on the Market

#### Basic financial terms to know

**Pay Yourself First** — A strategy in which saving is prioritized and made an essential cost in a budget. Typically, a certain percentage of income is deposited in a savings account, such as your 401(k), each month. Just as other “needs”

such as housing and food are essential, so is saving. Only once those “need” expenses are covered can money be used for “want” (discretionary) purchases.

### Quarterly Reminder

Are you expecting a tax refund this year? If so, consider creating an emergency fund with some or all of it. It's important to have this money available for when something unexpected comes up, such as a car, refrigerator or dishwasher breaking down. Here are the key tips for an emergency fund:

- Aim to have 3–6 months of living expenses saved
- Keep separate from your checking account
- Ensure there are no (or low) transaction fees; no penalties for withdrawals
- Verify you will receive interest earnings on the balance (a little something is better than nothing).

### Tools & Techniques

More than 50% of U.S. small businesses are owned by people 55 and older, according to a Spring 2021 survey by SCORE, a nonprofit that provides resources to small-business owners. If your retirement dream is to turn your hobby into a profitable business and finally be your own boss, check out [score.org](https://score.org). You'll find free access to volunteer mentors, workshops, virtual conferences, a start-up road map and many other tools for developing and launching a small business during retirement.

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