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Financial Briefs

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Reducing Debt — Where to Start

If you find that you have accumulated too much debt — whether your monthly debt payments have become overwhelming or you'd simply like to clear some of your liabilities — there are various ways to tackle the issue. Here are a few suggestions to get you started.

Understand your expenses

You didn't get into debt overnight. First, there was the student loan payment. Then the new car. Then the house. Then the credit card debt, and pretty soon, it all became overwhelming. The first step in reducing debt is to get a handle on it all.

Produce a list of all your expenditures: mortgage, cell phone bill, medical expenses/prescriptions, car loans, dining out, etc. Then categorize them into fixed expenditures (i.e., mortgage and car loans); items that are necessary but not fixed (phone bill, fuel, etc.); and items that are highly variable (clothes, dining out, etc.).

Create a budget

After coming to a solid understanding of your expenditures, prepare your monthly budget. Include all of the expenditures you just calculated — everything from that $5 cup of coffee that starts your day to the dry cleaning bill to your monthly car payment. Then make a list of all your debt obligations and the interest you're charged for each.

Create a line item in your monthly budget for debt payoff. This number needs to be above the minimum payments on your credit card statements. If you only pay the minimum amount due on credit card bills, you'll barely cover the interest you owe; it will take years to pay off your balance and, potentially, you'll end up spending thousands of dollars more than the original amount you charged.

Once you determine the maximum amount you can pay off each month, pay down the debt with the highest interest rate first — that usually means your credit card balances. Once the debt with the highest rate is wiped out, put your money toward paying the debt with the next-highest rate, and so on. (One exception: if you have a credit card with a low teaser rate set to spike after a fixed amount of time, try to eliminate the balance before the low rate expires.)

If you have debt besides your

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Debt and Your Retirement

Most people's vision of retirement not only involves freedom from work, but also, freedom from debt. A debt-free retirement is a laudable goal, but it's one that has become increasingly difficult for many to achieve. Mortgages, credit card debt — even student loans — now follow people into their golden years, and that can have serious consequences for their long-term financial health.

The Debt-Free Retirement Goal

When you retire, you stop actively earning income and start living on your savings. If you're still paying off debt, those payments will be another fixed expense, which means you'll have to draw more from your nest egg and have less to spend on things you truly enjoy. By going into retirement debt-free, you'll lower your living expenses, which will make that nest egg last longer.

Reducing Debt before Retirement

If at all possible, you'll want to eliminate your debt before you retire. Of course, some types of debt are worse than others. High-interest credit card debt can be a significant burden, so you'll want to eliminate it as quickly as possible. Look for areas in your budget where you can cut back and make extra debt

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Reducing Debt

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home, don't be over-ambitious in paying off your mortgage. Mortgages tend to have lower interest rates than other debt, and you can deduct the interest you pay on the first $750,000 of a primary-home mortgage loan.

Lower your expenses

After you've created your budget, think about how you can dedicate more money to debt payoff. Cut down on the items in your variable spending category and put the extra money toward your debt payments.

For many people, reining in discretionary spending for a few months goes a long way toward tackling debt. But if that's not enough, move toward reducing your fixed expenses: think about lowering your household bills, refinancing your mortgage to get a lower interest rate, or asking the credit card company to lower your interest rate.

Increase your income

Consider whether there's any way to boost your take-home pay. It can't hurt to ask for that well-deserved raise or to post for an open position within (or outside of) your company. If you get a big tax refund every year, that means you're having too much withheld from your paycheck. If that's the case, you can reduce your withholding by changing your W-4 at work.

What not to do

It may be convenient to borrow against your home equity or your 401(k) to pay off debt, but that can be dangerous. It puts your home at risk and means that you may fall short of your retirement goals. Even if you can't manage your monthly debt payments, lenders are often willing to work with you to create a repayment plan that you can manage (without putting your home or your retirement at risk).

Finally, the best debt-reduction move is to ask for help. Please call if you'd like to discuss this topic in more detail.

Credit Cards and Your Financial Plan

When it comes to financial planning, credit cards are a pretty divisive subject. Some financial experts advise that you stay away from credit cards, since they make it so easy for you to rack up debt and live beyond your means. Other people see credit cards as a useful financial tool, provided you can use them responsibly and wisely.

The Argument against Credit Cards

Owing a lot of money, especially a lot of high-interest revolving debt, is bad news for your long-term financial health. Getting stuck in debt makes it hard to save for the future and build wealth.

Plus, owing a lot on your plastic suggests that there's a disconnect between your income and your expenses. Rather than forcing you to stick to a budget and get your spending under control, credit cards allow you to spend more than you earn while delaying the consequences of that overspending.

The Argument for Credit Cards

One big advantage of using credit cards is that they allow you to build credit. Working to develop a good credit score now may help you down the road when you want to buy a house or make another major purchase.

Credit cards can also be a way to manage irregular income. If you can't count on receiving a paycheck every two weeks, but you know that the money will eventually be coming, a credit card can help you meet daily expenses.

With this strategy, it's important that you pay your balance promptly, so that you don't get hit with steep interest charges and end up with a mountain of debt.

If You Use Plastic

Despite some drawbacks, credit cards are a popular tool in Americans' financial arsenal. Because online account management features make it easy to track credit card purchases, many people find that using plastic makes it simpler for them to budget and track their purchases.

With a few clicks, they can easily see how much they've spent in a certain category in the past weeks or months. And if you're new to budgeting, you can comb through old online statements to get a sense of how much you spend in different areas, like groceries, gas, and entertainment.

As mentioned above, credit cards can also be a valuable tool if you're trying to build credit. If you're worried about controlling your spending but still want the credit-building properties of a card, consider a secured card or one with a low credit limit so you're less likely to overspend.

Savvy consumers can also make their credit card work for them by taking advantage of points and rewards programs. The variety of credit card rewards options is immense, ranging from cash back deals to discounts on gas to frequent flyer miles and hotel points. If you are using a card to earn rewards, make sure that you're not carrying a balance or spending more than you normally would just to get perks. Doing either will quickly erase whatever benefits you receive from using the card.

If you're not sure what role — if any -— credit cards should play in your financial plan, please call. We can help you understand the pros and cons of credit and how it can help or hurt your attempts to reach your long-term financial goals.

Debt and Your Retirement

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payments, or consider a second job to make extra payments. If you have a car loan and are close to retirement, consider selling the car after you quit working, since many people find that they no longer need multiple vehicles in retirement.

Getting debt-free before retirement may mean aligning your mortgage payoff date with your retirement date; you may be able to bring your mortgage payoff date closer by making extra payments. Often, retirees want the peace of mind that comes with knowing they'll own their home when they retire. But that accelerated payoff plan might not be right for everyone. If you have a relatively low-interest mortgage, no other debt, and are already maxing out your retirement savings, you may feel comfortable sticking with your standard repayment plan, especially if you can get more from investing the money that you'd otherwise use to make the extra mortgage payments.

One thing you shouldn't do: take money out of your retirement accounts to pay off credit card or mortgage debt. If you focus all your financial resources on paying off your loans, you run the risk of retiring with inadequate savings. Another potential misstep: prioritizing debt payoff over saving. While you don't want to be saddled with excessive debt, you also don't want to end up cash poor in retirement, without enough money to meet everyday expenses.

Debt in Retirement

Unfortunately, many people still end up nearing retirement holding a significant amount of debt. If that's your situation, you have several options. One is to delay retirement for a few years while you concentrate on paying off debt. Plus, if you continue to work, you're not tapping your nest egg, and it can continue to grow. In addition, if you delay claiming Social Security, your monthly payment will increase by up to 8% a year until you reach age 70.

If you must enter retirement with debt, you may need to pare down your lifestyle — traveling less frequently, moving to a smaller home, or giving up your boat or RV — to reduce debt and minimize the risk of outliving your retirement savings. You could also continue to work part-time or as a consultant. That can bring in extra income, and many people enjoy a more gradual transition to full retirement.

Finally, know that going into retirement with debt poses some other, specific risks. While most creditors can't garnish your Social Security payments, the federal government is an exception. If you owe back taxes, student loans, alimony, child support, or certain other types of payments, you may lose up to 15% of your Social Security benefit.

Interested in learning more about what you can do to retire debt before you retire? Please call if you'd like to discuss this in more detail.

Teaching Children to Handle Credit Cards

Credit cards can be a great convenience for both college students and their parents. They reduce the need to carry cash; enable students to purchase books, clothing, and other incidentals; and provide a ready source for emergency funds. There is another advantage — students who handle their credit cards responsibly have a head start on establishing a good credit history that can help them gain access to lower-interest credit after graduation.

However, young adults can't always be counted on to exercise caution when it comes to spending money. And a virtual blank check, in the form of a student's own credit card or authorized use on your card, can often be an irresistible temptation. For a student using a parent's card, the risk may come in the form of a hefty unexpected bill that cuts into monthly cash flow or reserves. But for a student with his/her own card, the risks are even more far reaching: over-limit fees, late fees, and missed payments that can damage the student's credit rating.

So what's a parent to do? While you probably can't stop your college student from getting a credit card, you can help teach him/her to use that card responsibly. Consider the following tips to help your child manage credit responsibly:

- **Help your child select a credit card.** Try to convince your child to use a debit card instead of a credit card, so he/she won't get into debt. If your child insists on using a credit card, go through several offers with him/her, comparing interest rates, annual fees, grace periods, and penalties.
- **Explain the basics of credit card debt.** Make sure your child understands that not paying the balance in full every month can result in a significant amount of interest. Low minimum payments mean it may take years to pay off credit card balances. Try to instill the concept of paying credit card balances in full every month.
- **Urge your child to only use credit cards for necessities, not to fund luxuries.** Credit cards can be used for items like book purchases and car repairs, but they should be avoided for clothing, dining out, and entertainment, unless your child can pay the balance in full every month.
- **Go over your child's credit card statement every month.** Show your child how to compare receipts to credit card statements. Go over all purchases and explain how credit cards can increase impulse purchases.

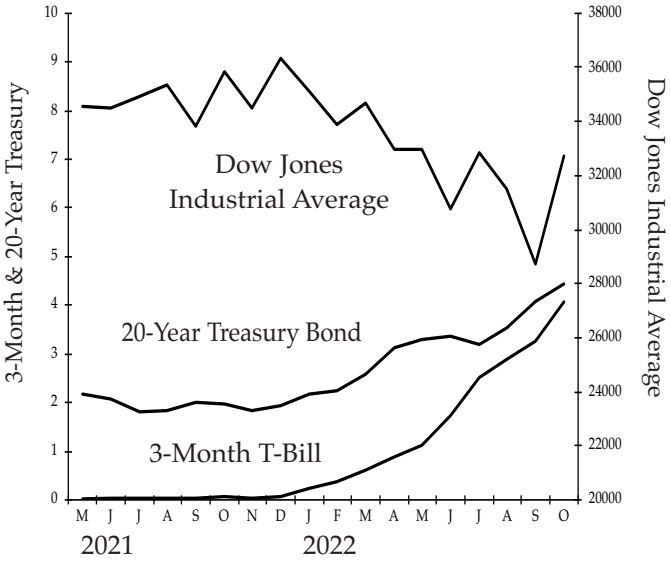
Business Data

Indicator	Month-end Aug-22	Sep-22	Oct-22	Dec-21	Oct-21
Prime rate	5.50	6.25	6.25	3.25	3.25
3-month T-bill yield	2.88	3.27	4.07	0.08	0.06
10-year T-note yield	3.15	3.83	4.10	1.52	1.55
20-year T-bond yield	3.53	4.08	4.44	1.94	1.98
Dow Jones Corp.	4.76	5.76	5.93	2.48	2.37
GDP (adj. annual rate)#	-1.60	-0.60	+2.60	+6.90	+2.30

Indicator	Month-end Aug-22	Sep-22	Oct-22	% Change YTD	12 Mon.
Dow Jones Industrials	31510.43	28725.51	32732.95	-9.9%	-8.6%
S&P 500	3955.00	3585.62	3871.98	-18.8%	-15.9%
Nasdaq Composite	11816.20	10575.62	10988.15	-29.8%	-29.1%
Gold	1715.90	1671.75	1639.00	-9.2%	-7.4%
Unemployment rate@	3.50	3.70	3.50	-16.7%	-27.1%
Consumer price index@	296.28	296.17	296.81	6.8%	8.2%

— 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
May 2021 to October 2022



News and Announcements

Credit Issues as You Age

While obtaining credit can be just as important for older individuals as it is for younger ones, older individuals often have unique credit issues. For instance, waiting until after retirement to apply for a loan can result in the loan being rejected because your income is much lower. Or, if one spouse dies, the surviving spouse may find that lenders want to close accounts or the spouse may not have a sufficient credit history to apply for credit on his/her own.

To help ensure that you don't have credit problems as you age, consider these tips:

- **Apply for major loans while you are still working.** If you are getting close to retirement and know you'll need a loan, perhaps for a retirement home or new car, apply for credit a few years before retirement.
- **Make sure that credit cards are obtained as joint accounts.** If you have an individual account with your spouse listed as an authorized user, the lender can close the account if you die. However, if the account is a joint one, the creditor cannot automatically close the account or change its terms. The lender may require your spouse to update the application if the lender suspects that he/she does not have adequate income for the credit limit.
- **Ensure that both you and your spouse have a good credit history.** Review your credit reports, ensuring that all information is accurate and that you both have sufficient history. That way, either of you will be able to obtain credit on your own if needed.
- **If you are denied credit, find out why.** It could have been an error, or you may convince the lender to consider other information. You may also be able to negotiate a compromise with the lender. For instance, if the lender is concerned about your age when considering a 30-year mortgage, perhaps a 15-year mortgage would be acceptable.

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