

# HOLDEN & MICKEY, INC.

Investment & Insurance Advisors

*Serving Clients Since 1930*



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## Do you want to create a plan for your financial future?

At Holden & Mickey, we help our clients with many different aspects of their planning, investments, and insurance. We also help many of them organize a comprehensive financial plan.

More and more often, clients are taking advantage of the comprehensive planning process to build a financial strategy that will help meet their short and long-term goals.

The process begins with gathering data, forming a detailed inventory of finances and often building a private client wealth management site. The information is analyzed and recommended strategies are developed to fit your specific goals. These suggestions are reviewed, prioritized and implemented. We continuously monitor your plan with regular reviews and make adjustments based on your changing lives.

Our planning clients have historically been the most likely to introduce us to their friends, colleagues or family members. Please let us know if you have an interest in exploring what comprehensive financial planning would look like for you!



The information provided is not written or intended as specific tax or legal advice. Holden & Mickey, its employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

### About Us:

\*Holden & Mickey, Inc. designs, implements, and monitors financial plans for high net worth individuals. Our firm has been working with clients in this area since 1930. Holden & Mickey advisors are highly credentialed and multi-generational in their focus on wealth management.



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# Should You Prepare to Retire on 80% of Your Income?

## *Examining a long-held retirement assumption.*

A classic retirement preparation rule states that you should retire on 80% of the income you earned in your last year of work. Is this old axiom still true, or does it need reconsidering?

Some new research suggests that retirees may not need that much annual income to keep up their standard of living.

**The 80% rule is really just a guideline.** It refers to 80% of a retiree's final yearly gross income, rather than his or her net pay. The difference between gross income and wages after withholdings and taxes is significant to say the least.<sup>1</sup>

The major financial challenge for the new retiree is how to replace his or her paycheck, not his or her gross income.

So concluded Texas Tech University professor Michael Finke, who analyzed the 80% rule and published his conclusions in *Research*, a magazine for financial services industry professionals. Finke noted four factors that the 80% rule does not recognize. One, retirees no longer need to direct part of their incomes into retirement accounts. Two, they no longer involuntarily contribute to Social Security and Medicare, as they did while working. Three, most retirees do not have a daily commute, nor the daily expenses that accompany it. Four, people often retire into a lower income tax bracket.<sup>1</sup>

Given all these factors, Finke concluded that the typical retiree could probably sustain their lifestyle with no more than 77% of an end salary, or 60% of his or her average annual lifetime income.<sup>1</sup>

**Retirees need to determine the expenses that will diminish in retirement.** That determination, rather than a simple rule of thumb, will help them realize the level of income they need.

Imagine two 60-year-old workers, both earning identical salaries at the same firm. One currently directs 25% of her pay into a workplace retirement strategy. The other directs just 5% of her pay into that strategy. The worker deferring 25% of her salary into retirement savings needs to replace a lower percentage of their pay in retirement than the worker deferring only 5% of hers. Relatively speaking, the more avid retirement saver is already used to living on less.

This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.

*continued from page 2*

**New retirees may not necessarily find themselves living on less.** The retirement experience differs for everyone, and so does retiree personal spending. A recent Employee Benefit Research Institute survey found that over a third of retirees report spending more than they had originally expected. Only 9% reported that they were spending less than they had expected.<sup>2</sup>

**A timeline of typical retiree spending resembles a “smile.”** A 2013 study from investment research firm Morningstar noted that a retiree household’s inflation-adjusted spending usually dips at the start of retirement, bottoms out in the middle of the retirement experience, and then increases toward the very end.<sup>3</sup>

**A retirement budget is a very good idea.** There will be some out-of-budget costs, of course, ranging from the pleasant to the unpleasant. Those financial exceptions aside, abiding by a monthly budget (with or without the use of free online tools) may help you to rein in any questionable spending.

Any retirement income strategy should be personalized. Your own strategy should be based on an accurate, detailed assessment of your income needs and your available income resources. That information will help you discern just how much income you will need when retired.

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### **Citations.**

1 - <http://www.michaelfinke.com/research.html> [2022]

2 - <https://www.ebri.org/retirement/retirement-confidence-survey> [2022]

3 - <https://www.thestreet.com/retirement/want-to-be-rich-in-retirement-plan-better-save-more> [2/23/22]

# Getting Disability Income

## *The facts about applying for SSDI and SSDI benefits.*

If you cannot work due to a disability, you might be eligible for Social Security Disability Income (SSDI). These federal government payments could offer you a degree of financial relief.<sup>1</sup>

Most SSDI recipients get paid between \$700-1,400 per month. This year, the average monthly SSDI benefit for an individual is \$1,358. Your monthly benefit could range from \$100 to \$3,345 based primarily on your earnings history. Roughly speaking, the greater your average annual earnings (in terms of taxable income), the greater your SSDI benefit.<sup>1,2</sup>

Suppose you have previously spent some time out of the workforce, had jobs in which you did not pay Social Security taxes, or lived in a household receiving other government benefits. In that case, this can also affect SSDI payment amounts.<sup>1,2</sup>

How do you apply for SSDI? You can apply at the Social Security Administration's website, [ssa.gov](https://ssa.gov), or call the SSA at 1-800-772-1213. The SSA has a Disability Starter Kit, downloadable at [ssa.gov](https://ssa.gov), to help you get ready for a phone interview or fill out the application so that you have the right documentation in hand when you apply.<sup>3</sup>

Once you complete and submit your application, it goes to the Disability Determination Office in your state for review. After that, the DDO sends you a letter notifying you whether or not you have qualified for SSDI. (If you fail to qualify, you can appeal the decision in writing within 60 days of getting the letter.)<sup>1</sup>

What are your chances of qualifying for SSDI? Typically, it would be best if you met the following criteria. One, you must be currently out of work and unable to participate in what the SSA terms Substantial Gainful Activity – meaning you can't earn something approximating a minimum wage by any means. Two, your disability renders you unable to perform your job or any other type. Three, your disability is expected to last 12 months or longer or eventually result in death. (The criteria for veterans, children, the widowed, and the blind differ slightly.)<sup>1,4</sup>

If you qualify for SSDI, the money will take time to arrive. The SSA starts your benefit payments once you are determined to have been disabled for six full months. So there is a five-month waiting period that begins the first full month after your qualification date.<sup>3</sup>

The takeaway from this is obvious: there is no point in hesitating to apply for SSDI. You want to apply as soon as you can.

There are two other important things to note about SSDI. If you qualify for it, you become eligible for Medicare just two years after you are entitled to benefits. Also, SSDI benefits adjust for inflation, so your monthly use is designed to grow larger with time.<sup>2</sup>

This information intends to provide general information on the subjects covered. Readers should not infer specific legal advice regarding eligibility for disability income or criteria for eligibility.

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### Citations

1. Investopedia, March 31, 2022
2. Disability Secrets, November 8, 2021
3. Social Security Administration, July 2, 2022
4. Investopedia, December 18, 2021



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