

# RETIREMENT REPORT

County of San Mateo, CA | Deferred Compensation Plans



Summer 2022

## Eliminate the Guesswork

Creating an estate plan is a key component of achieving financial wellness

Most people don't spend too much time thinking about end-of-life planning on a daily basis. But you may have loved ones who will soon face those issues. While it's not pleasant to think about, you may be the one who ends up having to sort out their affairs. In addition, there will come a time when you need to think about yourself and your own family.

In a nutshell, estate planning is writing down what you want to happen after you die. This is commonly accomplished using wills, trusts, advance directives and beneficiary designations on accounts. If you don't have an estate plan when you pass away, you force people to guess what you wanted. Guessing can place a lot of stress on your family. Creating an estate plan is actually one of the most generous things you can do for them. Here are four key reasons to create an estate plan.

### Choose How To Distribute Your Assets

An estate plan allows you to allocate your assets according to your wishes. If you don't have an estate plan, your money and property may not get to the correct person. In addition, some people who get an inheritance in one big sum may have the potential to spend it all pretty quickly. Creating an estate plan identifies specific inheritances for certain beneficiaries, especially those who might be young, immature or irresponsible.

In addition, if there is not a will when you die, it is called dying intestate. Each state has a succession formula for who receives money and property left behind. In most cases, if the state can't find anyone, it goes to the state where you passed away.

### Set Up Care for Dependent Children

Families with dependent children should make a plan for childcare if both parents pass away. Many young couples don't think about it, but in the event of both of their untimely deaths, they need to appoint someone to be the guardian of their children. Make sure that if you have minor children, that you have named someone to be the proper



caretaker. Although it can be uncomfortable having the conversation on who will be the caretaker (your parents or your spouse or partner's parents, for example), setting up an estate plan can prevent arguing among family members.

### Avoid Probate

If you die without a will, your estate will go through probate. The probate process in most states takes a minimum of seven months to allow creditors to put through claims. In addition, it's a public hearing, which allows people to know your personal business. The probate process can also be expensive, and legal costs will reduce the amount your loved ones inherit. Essentially, the probate process gets in the way of a smooth transition of your assets to your loved ones.

### Minimize Taxes

Some advance planning can save your heirs from getting a big tax bill. For example, depending on whether or not your heir is a spouse or nonspouse (and subject to certain rules), they may need to pay income tax on money they inherit and withdraw from a traditional IRA. However, if they inherit a Roth IRA that was funded for five years or more prior to your death, distributions can be taken tax-free. In addition, if you plan to leave behind an estate in excess of \$12.06 million (based on 2022 Internal Revenue Service figures), you need to make a plan for estate taxes, or the so-called "death tax." Some states also have an estate or inheritance tax with a different threshold. You can reduce these estate taxes with an estate plan.

# Retirement in Motion

## Tips and resources that everyone can use

### Knowledge Is Retirement Power

Many people use the 4% rule to guide their retirement withdrawals once they stop working. The rule proposes that withdrawing 4% from a retirement fund in the first year, followed by inflation-adjusted withdrawals every year after, should ensure money is available to last for a 30-year retirement. For example, a retiree with a \$1-million nest egg would withdraw \$40,000 the first year. The next year, they would adjust that \$40,000 to reflect the rate of inflation and take out that amount. When your retirement comes, consider talking to a financial advisor about a withdrawal rate that is right for you, and customized to your age and life expectancy.

### Q&A

#### How often should I check my retirement plan balance?

For most long-term investors, once or twice a year is generally adequate. The closer you get to using the money (within two to three years of retirement, for example), the more you should check — just to make sure you remain on track to reach your savings goal.

### Quarterly Reminder

Looking for some hot summer savings ideas? Check out these tips to help you save money and improve your budget.

- Wash your car at home versus taking it to your local carwash.

- Use your heat-generating appliances such as the dryer or dishwasher at night.
- Consider using cold water to wash your clothing.
- Hang your laundry outside to dry.
- Check out yard and garage sales first for things you need (or have one yourself).
- Avoid using your oven and stove by grilling outside as much as you can.

### Tools & Techniques

If you are considering investing in stock funds within your retirement account, here are some ways to help make sure you are well-diversified:

**Size:** Consider a fund that invests in stocks of small, medium and large companies, because different-sized companies tend to lead the market at different times.

**Style:** Consider funds with different investment strategies, such as growth and value. Holding both types may help minimize volatility in your portfolio, and potentially benefit in all types of environments.

**Geography:** You may want your portfolio to include a fund that has exposure to domestic and international stocks, including those from emerging markets. Financial markets around the world respond differently to regional and global events.

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## Whom do I call for help?

### Account Information

Balances • Investment changes • personal info

**Contact: Empower**  
1-800-743-5274

[www.retiresmart.com](http://www.retiresmart.com)

### Plan's Investment Consultant

Innovest Portfolio Solutions

2239 Harbor Bay Parkway  
Alameda, CA 94502

303.694.1900 | [www.innovestinc.com](http://www.innovestinc.com)