



## On Course | May 31, 2022 | Volume 22, #5

Welcome. We at Compass Planning continue to appreciate your support. Thank you.

What is happening with inflation and what can you do about it? The headlines are startling, with inflation higher than we've seen since the early 1980s. As with many things financial, while it's important to be aware of the macro view, even more important is considering how you and your financial plan are affected.

If you missed our series on retirement, you can still access the issues. For Retirement, Part 1 - Retirement Savings, click [here](#). For Retirement, Part 2 - Social Security, click [here](#). For Retirement, Part 3 - The Retirement Paycheck, click [here](#).

If you would like assistance managing your finances through inflation, we are here to help you stay *On Course!*



Jennifer Lane, CFP

### Financial Strategies During Inflation

What you're seeing or reading about these days should give you the heads up to review your own finances. Always, pay attention to your individual situation to make changes that make sense for you rather than reacting -- or overreacting -- to the headlines.

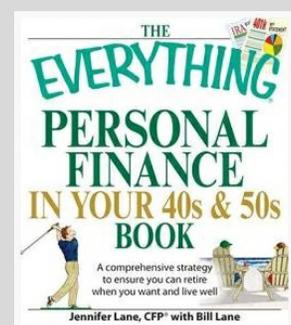
#### Background

- The US Bureau of Labor Statistics tracks many categories of goods and services. Some of the more notable categories in their recent report tracking 12-month inflation as of March 2022 include:
  - All items: 8.5 percent
  - Groceries: 10 percent



Contribute to a Roth IRA in the years you're eligible. They are a great tax planning tool. Withdrawals are tax free and can be delayed past age 70 and a half. You don't get to deduct your deposit on your tax return, but the tax free withdrawals in retirement can be a great source of liquidity.

Get more tips in Jennifer's book



- Food away from home: 6.9 percent
- Gasoline: 48 percent
- Fuel Oil: 70 percent
- Electricity: 11 percent
- Medical care services (surprisingly): 2.9 percent

### A look at my expenses

- Wow! Those are some eye-popping increases. Yes, good to know. Before hitting the panic button or before taking any action with your money, take a look at how inflation is affecting you directly.
- I gave it a try with my expenses for January through March this year versus last year. Here's what I found.
  - Groceries: +55 percent
  - Dining Out/Take Out: -8 percent
  - Gasoline: -11 percent
  - Electricity: +12 percent
  - Medical: -4 percent
- No surprise that groceries and electricity are up. Fortunately, I don't have fuel oil to deal with, but just this small sample proves I should keep an eye on my grocery bill if I want to stay on track and avoid added costs eating into my savings.

### Track your expenses

- Knowing what you spend is helpful in many ways -- particularly as an inflation fighting tool. A few careful decisions at the grocery store could put a dent in my grocery inflation. Whether I change what I buy or change where I shop, it's a choice I can make because I know where my money goes and, then, spend intentionally.
- In fact, I may choose to let the groceries stay on the pricey side because I want to shop at my favorite small grocery stores in Vermont as a dollar-vote from me to keep a wonderful part of rural living in my life. I'll find other places to cut instead.

### Cash savings and inflation

- Say this out loud: **Inflation decreases the value of your cash.**
- If your cash returns 0.5 percent, then at 8.5 percent inflation, you actually lost -8 percent.
- Against an S&P 500 large cap stock fund returning ~15 percent and a total bond fund at -4 percent, cash isn't a long-term safe haven right now.
- Cash is important for liquidity -- and not much else.
- If you're still working, keep 3 to 6 months of basic living expenses in cash for emergencies and possible job search. Use online banks and some credit unions for this cash.
- If you're retired, review your withdrawal rate -- how much you're taking from your investments for daily expenses -- because it is a big factor in your cash planning.
  - If you live on pension and Social Security with little cash needed from investments, keep enough in cash for emergencies and leave the rest invested.
  - If you draw more than 4 percent of your portfolio, take a closer look at expenses. A withdrawal rate of 3-3.5 percent is safe for most of the clients we work with.
  - Keep your portfolio balanced to your target asset allocation.

### Time in the market is better than timing the market

- Your diversification pie chart matters.
- Your long-term portfolio -- money you won't be drawing from for ten or more years -- can stay invested following targets in your financial plan.
- Rebalance every year. This will force you to sell what's done well and buy what hasn't. That is, selling high and buying low without trying to guess where the market is going.
- Stock share values are down, but stocks (and the funds that own them) are still paying dividends, which can be a good income source

Buy Now

Jennifer and Sarah were both named  
2022 Boston Five Star Wealth  
Managers.



### Helpful Websites

[IRMAA](#)

[QCD-Qualified Charitable Distributions](#)

[Required Minimum Distributions](#)

[Roth IRA](#)

[US Bureau of Labor Statistics](#)

them) are still paying dividends, which can be a good income source that's often overlooked. If you're retired, consider the income potential and change dividends to pay income directly to you rather than having to sell shares for cash.

- Shorter bond maturities do better against inflation.

### **Beware of tax bracket creep and IRMAA**

- If you are living on IRA or 401(k) withdrawals, increased expenses may mean increased withdrawals. With increased taxable income you may be subject to IRMAA (income-related monthly adjustment amount) that could result in extra Medicare premiums.
- IRMAA begins at adjusted-gross income of \$92,001 for individuals and \$182,001 for couples.
- If you think you may reach the IRMAA limit, review where your income is coming from. Reducing IRA withdrawals in favor of spending dividends from your taxable accounts can help.
- If you're over age 70 1/2 and are making charitable donations but not itemizing your taxes to get the charitable deduction, consider writing checks to charity from your IRA (called a Qualified Charitable Distribution - QCD). QCD checks don't count towards your adjusted gross income....reducing taxes and minimizing the chance you'll hit IRMAA.

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## **Jennifer In The Media**

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Below are links to Jennifer's frequent contributions to financial planning articles.

- Jennifer contributed to a WBUR Radio Boston segment, ***How to Look Before Your Leap into the "Great Resignation."*** Click [here](#) to listen.
  - NBC10 consumer investigative reporter Leslie Gaydos interviewed Jennifer for savings tips. For a great video, ***How to Save \$1,000 in 5 Months***, click [here](#). For the written article, click [here](#).
  - Jennifer contributed to a timely article, ***How to seek forbearance on your mortgage***, for The Boston Globe. [Read article.](#)
  - If you're interested in dividend funds, Jennifer contributed to **The New York Times** article, ***Dividend Funds Can Add Income, and Risk, to Your Portfolio.*** [Read article.](#)
  - Jennifer contributed to a **BankRate** article, ***Should I combine my mortgage and student loans?*** [Read article.](#)
  - Need help with your 401(k) during the pandemic? Jennifer contributed to a **Boston Globe** article, ***Five tips for managing a 401(k) during the pandemic's turbulence.*** [Read article.](#)
  - Jennifer contributed to the **Bottom Line Inc** article ***Prepare your Finances for a Possible Recession.*** [Read article.](#)
  - Jennifer contributed to **The Wall Street Journal** article ***If Saving During a Pandemic Is Hard, Here's How to Stay Motivated.*** [Read article.](#)
  - The **New York Times** featured Jennifer in an article titled, ***Balanced Funds Don't Inspire Fear or Greed. That's Why They Are So Useful.*** [Read article.](#)
  - With a contrarian view, Jennifer contributed to an article, ***People are enraged by the idea that you should have twice your salary saved by the time you're 35!*** published recently by **Business Insider**. [Read article.](#)
  - Moving in together? Check this article from **Business Insider**, ***Five questions you and your partner should answer before taking the biggest step in your relationship.*** [Read article.](#)
  - **Insider** asked Jennifer to contribute to an article on old fashioned ways to manage your money, ***Six money-saving tips your grandma used that are way more effective than any budgeting app.*** [Read article.](#)
  - Jennifer contributed to an article on **Business Insider**, ***This is the best way to do your taxes online - according to experts.*** [Read article.](#)
  - **CNN Money's** Money Moves featured Jennifer in an article on how to strike the right balance between retiring early and saving enough. [Read article.](#)
  - Jennifer contributed to a **CNN Money** article ***When is the Right Time to See a Financial Advisor?*** [Read article.](#)
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# Compass Planning News

- Compass Planning is a sponsor of YW Boston's 2021 two-part [Elevating Lives Series](#).
- Compass Planning continues to meet with clients as well as those interested in learning more about the firm via phone and web-based video conferencing. Email [info@compassplanning.com](mailto:info@compassplanning.com) to learn more.
- Compass Planning has become a supporter of [The Center for Financial Planning](#) at the sustainer level. The CFP Board created the center to achieve a more diverse and sustainable financial planning profession so that every American has access to competent and ethical financial planning advice.
- AdvisoryHQ named [Compass Planning](#) as one of the ten best Boston financial advisors. ([Disclosures](#))

*Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our fee-only, client-centered approach provides education and guidance for achieving financial goals and dreams.*

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