2025 | SECOND QUARTER
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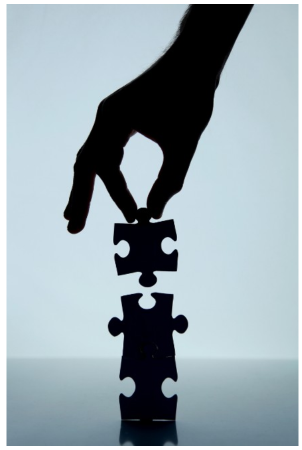
Retirement Income



One of the trickiest - and most important - issues facing retirees is figuring out how much they can safely withdraw from their retirement portfolio each year without running out of money somewhere down the road.

Why is it so complicated? Because there's a lot we just don't know. No one can predict how the markets will perform, how much a portfolio will grow over time, or what future inflation or tax rates will look like. Maybe most importantly, none of us know how long we'll live. If you assume you're going to die next year, you could spend your entire retirement fund this year without a second thought. But if you break records and live to 126, that same portfolio might need to stretch quite a bit.

The most sophisticated research on the topic comes from William Bengen, who published an influential article in 1993 that looked at how much retirees could afford to spend each year, inflation-adjusted, if they had retired in each month since 1926, assuming a 30-year retirement. His initial conclusion over thousands of actual retirement trajectories was that, in the worst case, you could live off of 4% of the initial portfolio amount in the first year, adjusted for inflation thereafter, and still have a bit of money left over.

But that 4% figure was a worst-case scenario, which befell those unfortunate retirees who left work right at the start of the stagflation period and who experienced the full brunt of the market downturns of the 1970s. (One interesting aspect of the research was that inflation was a bigger threat to retirement portfolio sustainability than bear markets.) In every other time period, people could have been more adventurous with their spending, in some cases up to 10% of that initial portfolio.

The 4% rule is just that - a rule of thumb. At FSA, we calculate an initial withdrawal rate based on each client's specific situation and then revisit it each year as things change: markets, inflation, spending needs, and more. We also know that over time, retirement income usually needs to keep pace with inflation, so we treat this as an ongoing, year-by-year conversation.

In many ways, creating a sustainable retirement income plan is more complex than saving for retirement in the first place. That's why having objective advisors in your corner can make a big difference as you navigate the ever-evolving puzzle of retirement.

From Our FSA Family

Stay connected with us! If you've found value in the conversations we've had during our meetings, we think you'll really enjoy what we're sharing online, too.

We're active on LinkedIn, Facebook, and YouTube where we post financial planning tips, market updates, our *Money Matters with FSA* videos, and the occasional behind-the-scenes peek at life at FSA. It's a great way to stay in the loop and pick up a helpful idea or two between meetings.

Your life is always evolving, and your financial plan should grow with it. That's why we're here to walk with you, step by step. Following us online is just one more way to keep that connection strong.

If you know someone who might benefit from a little more clarity or confidence in their finances, we'd be honored if you shared our pages with them.

And be sure to check out our new website, fsawealthpartners.com, where you can explore our team, our process, and a variety of tools and resources.

As always, we appreciate your trust in us and are grateful to be part of your financial journey. Thanks for being part of the FSA family!

The Markets Go on Sale

Recent tariff announcements have added to an already volatile year in the markets. Since the news broke, the S&P 500 has dipped and rebounded, reflecting growing uncertainty around global trade tensions. Investors are clearly uneasy about how escalating trade disputes with major partners might ripple through the economy, especially if retaliatory measures lead to broader slowdowns.

The U.S has gone a remarkably long time without a significant recession. Aside from brief downturns during the early stages of the COVID-19 pandemic and again in 2022, the economy has experienced over a decade of relatively steady growth.

Overdue is not destiny, of course. Prior to the current trade tensions and shifts in policy direction, there was a sense that the Federal Reserve might pull off a soft landing, and that outcome is still possible. There's no evidence that companies - even if they have to raise prices to pay for the friction caused by tariffs in their cross-border supply and manufacturing chains - are any less valuable today than they were at the beginning of the year. In fact, one driver of recent market volatility may have been disappointment over the Fed signaling it wouldn't cut interest rates as aggressively as some investors had expected.

If a recession does happen, it's often helpful to think of it as a temporary sale on stocks. These periods tend not to last long; the 2020 downturn lasted just 33 days, and the 2022 decline was followed by a rebound in 2023. Historically, market corrections have averaged about nine months since 1929. But while markets tend to recover over time, the ride can be bumpy, and sharp losses along the way can disrupt long-term plans, especially for those who are drawing income or approaching retirement.

That's why we offer safety net strategies designed to help protect portfolios during major declines. Of course, knowing when to get to shore (cash) is only half the challenge; having a thoughtful plan for when to get back into the water (stocks) is just as important. That's why it's crucial to have an exit strategy on the way out and a game plan for getting back in.

For some clients, this kind of active approach provides added peace of mind. For others with longer time horizons, staying fully invested may still make sense. It all comes down to your personal situation: your goals, your timeline, and how much risk you're comfortable taking.

Turning Losses to Your Gain

It's hard to find any investor who enjoys a market downturn, but there are a few ways to take advantage of the opportunities they create. Tax professionals recommend that you gift assets to your children or to a trust (out of your estate) and let the assets recover in value in the hands of people with a lower tax rate. You can also move assets out of a traditional IRA into a Roth IRA - a partial Roth conversion - and be taxed on the (hopefully temporarily) lower valuation of the assets. When the downturn ends, the assets will grow free of all future taxation, meaning lower taxes today could represent a bargain in the future. And if a Roth account passes to heirs, they'll be able to take the money out tax-free.

Tax-loss harvesting is another way to turn downturns into an advantage. If you own an investment that's now worth less than what you paid, you might be able to sell it and use that loss to offset gains elsewhere, or even up to $3,000 of ordinary income. Think of it as sharing a bit of the pain with Uncle Sam. For instance, you can sell an ETF at a gain and offset it with a harvested loss, keeping your overall tax bill flat.

Of course, there's always a catch. The IRS's "wash sale" rule says that if you sell a security at a loss, you can't buy back the same one within 30 days or you'll lose the ability to claim the loss. You can, however, buy something similar to stay invested during the waiting period.

At FSA, we explore all of these strategies with clients to make the most of volatile markets. Sometimes a downturn gives you the chance to turn lemons into lemonade. If any of this sounds worth exploring, we're happy to help.

New Budget: What It Means

The House of Representatives has passed a new spending bill that would significantly reduce government spending across a wide range of programs, though many of the specifics remain to be determined.

The bill proposes to extend the 2017 tax cuts, which were set to expire at the end of the year, and introduces an estimated $500 billion in new tax breaks, including exempting tips from taxable income. Altogether, the tax-related provisions are projected to cost $4.5 trillion. It also outlines increased funding for immigration enforcement (estimated at $110 billion), customs and border inspections (up to $90 billion), and border security support from the military (up to $100 million).

To help offset these costs, the bill calls for at least $880 billion in cuts from areas overseen by Energy & Commerce, including Medicare and Medicaid. Some of the proposed savings would come from adding work requirements for certain Medicaid recipients, specifically those without documented disabilities or young children, and from increasing paperwork requirements for continued enrollment, causing some recipients to get discouraged and stop filing for benefits.

Other proposed spending reductions include $330 billion from school nutrition programs for low-income children and rollbacks to existing student loan repayment plans. The Supplemental Nutrition Assistance Program (SNAP) would also see significant cuts, and an additional $562 billion in reductions are left undefined for now.

Interestingly, those tax cuts might be reversed; the bill mandates that if the House fails to find $2 trillion in deficit reduction somewhere in these unspecified goals, then taxes would be raised by a commensurate amount to offset the difference. This bill could wind up creating tax increases.

But assuming all goes as planned, the bill would lower government revenues by $4.5 trillion and attempt to save $2 trillion through spending cuts, resulting in an estimated increase to the deficit of $2.5 to $2.8 trillion over the next decade. Tariffs may be considered as another source of revenue to help close the gap.

Now the legislation goes to the Senate, so expect more changes to come.

Tariff Talk: What Are They?

The tariffs are the story of the day, and they're creating a lot of uncertainty, especially for companies that rely on global supply chains. The idea behind the new tariffs is to make it is more expensive for manufacturers to outsource jobs and to give U.S.-made products a price edge over imports. We can't know what the longer-term impact will be, but companies like Apple, Nike, Ford, and General Motors are suddenly looking at higher costs, diminished profits, and perhaps also lower sales in the short term. Adding to the uncertainty is the fact that many countries hit by these tariffs are either planning to respond with retaliatory tariffs or gearing up for trade negotiations.

Interestingly, the actual tariff calculation on the U.S. side seems not to be precisely targeted at manufacturing, but a somewhat simplistic formula where the U.S. trade deficit with another country is divided by that country's exports to the U.S. As an example, cited by one economist, the U.S. experienced a $17.9 billion trade deficit with Indonesia last year, and Indonesia exported $28 billion worth of goods and services to the U.S. market. Divide $17.9 by $28 and you come up with the initial 64% additional tariff announced on Indonesian imports.

Since April 2, there's been a 90-day pause on some of the original tariff announcements. In the meantime, a 10% across-the-board tariff has gone into effect, with some exceptions for specific products and parts.

One way or another, the American economy will get through this period, and the trade war, like all wars, will end. Until then, FSA will stay vigilant in monitoring markets and our clients' portfolios. Keep in mind, we account for transitionary markets like these in our clients' retirement plans as market downturns are a feature, not a bug, of long-term investing.

Dollar Decline - and Some Not -So-Pleasant Implications

One of the quieter ripple effects of the recent tariff news has been the drop in the value of the U.S. dollar. The dollar recently fell to a three-year low when measured against a basket of global currencies (see chart), and the trend suggests it could continue sliding. A key reason is that foreign investors are pulling back from U.S. assets, like stocks and Treasury bonds, citing concerns that the U.S. economy is going to continue on a recessionary path. Put more simply, there's growing doubt about the dollar's reputation as a safe place to park money.

Economists will point out that a weaker dollar can make American goods more affordable to overseas buyers. But with reciprocal tariffs in play and consumer backlash brewing in some countries, it's too early to tell how much that potential benefit will actually play out.

A more pressing concern is higher interest rates and the potential impact on the national debt. Every tick upward in the rates that investors are willing to accept to buy American debt raises the percentage of the national debt that goes toward interest payments. With the national debt now above $35 trillion, even modest rate hikes can have a meaningful impact. In fact, this could end up being the first year that interest payments on the debt become the largest single item in the federal budget.

While much of the media focuses on stock market swings, economists are closely watching Treasury debt auctions. To fund deficits and roll over maturing debt, the government is expected to issue about $10 trillion in Treasury securities this year, an amount equal to more than a third of the nation's GDP.

The outcome of the tariffs and new trade agreements will play a large role in how the dollar may recover from here. We'll continue to keep an eye on this trend.

Why Are Eggs So Expensive?

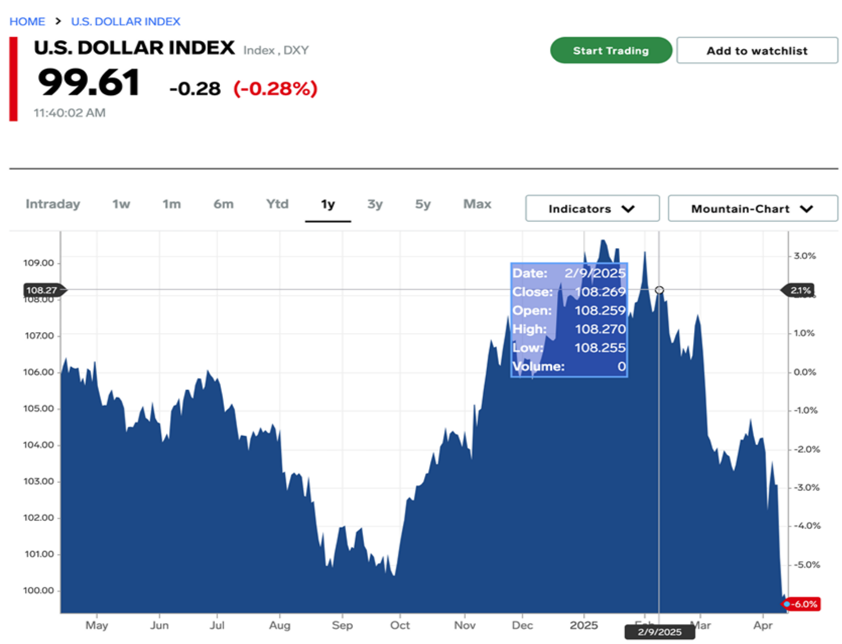
If you've done any grocery shopping lately, you've probably noticed: Eggs are no longer the cheap staple they once were. A dozen white Grade A eggs, not even the fancy free-range kind, are now selling for close to $5. Back in 2022, that same carton cost as little as $1.70. In fact, it wasn't until late 2002 that eggs even crossed the $1 mark.

To put that in perspective, from 2002 to 2022, egg prices rose about 70%, an average of 2.7% per year. But in just the last three years, they've jumped over 170%, a whopping 40% annual increase.

So, what happened? This is a classic example of supply and demand working its way into the marketplace. Starting at the end of last year, an avian influenza plague roared through the commercial hen population, starting with turkeys, then moving to dairy cows, then to chickens (and, alarmingly, some humans).

In December alone, some 23.2 million birds were killed to prevent the virus from spreading, taking their laying capacity permanently offline. You may have noticed that the egg aisle in your local grocery store has been empty at times, and many outlets are placing limits on cartons purchased per shopping trip.

When a dramatically lower supply meets consistent demand, prices always go up. The situation may only be temporary, but it will take time for egg producers to replace their lost hens. In the meantime, there are always pancakes and oatmeal.



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