STONE PINE
FINANCIAL PARTNERS

Retirement in Focus

SPRING 2024

Use "Buckets" to Invest in Retirement

Here at Stone Pine, we specialize in working with people in retirement. Every day we have the privilege of advising people who are transitioning from the workforce to financial independence. We've seen many things and learned many things, and over the years, some common themes and challenges have become apparent.

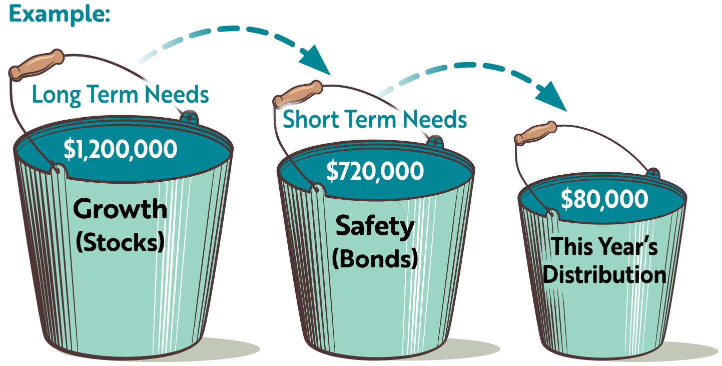
Most people are surprised by how much work is involved with retiring. There are decisions about healthcare, Social Security, living arrangements, setting up distributions from investments, and more to coordinate. However, what really catches people off guard as they approach retirement is the difficult mental shift required when switching from living off your paycheck to living off your savings and retirement income sources.

Investing in Retirement.

Investing in retirement can be scary, That's why having a good process and framework for your retirement decisions is so important. Most people are accustomed to saving and seeing their balances grow. So what happens when you are taking distributions AND the market is going down in value?

Investing in retirement calls for both growth assets and safety assets. We like to think about this in terms of "buckets". The growth bucket is comprised of money invested in the stock market, and the safety bucket is comprised of safe bond funds or laddered bond funds. Then, funds for this year's distribution are paid out from a high-yield money market account. Think about the growth bucket as money for the long term and the safety bucket as funds specifically set aside for your upcoming year's distributions. In general, we like people to have between 5 and 10 years' worth of future distributions set aside in the safety bucket.

Example:



In the example above, the couple has about 60% of their funds allocated for growth in stocks and 40% of their funds set aside in safe bonds for upcoming distributions. They are planning to withdraw $80,000 per year and that means they have **9 years** of future distributions set aside in a safe place. Think about how mentally freeing that fact is. Their distributions are not coming

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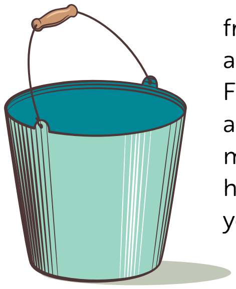


from stocks so they won't need to sell any stocks while they are down in value. Furthermore, when the stock market has a down year, you simply don't purchase more bonds. But when the stock market has had a positive return, as in most years, you're selling off a small portion of your gains and extending your bond positions so you always have a nice long runway of distributions set aside into the future.

As you start to consider retirement, think about the bucket framework. How you account for the variables at play - both numerically and mentally - can have a big impact on making good decisions and enjoying the process along the way!

The Magnificent 8

If you've been paying attention to the financial news media over the past several months, you know that there are a lot of cautionary tales about the strong market returns. The headlines question whether to consider this a strong, robust market when the majority of the returns are being propelled by a small number of companies. In other words, is the stock market really doing well if all companies aren't performing around the same rate of return? Let's dissect this question together.

First, the companies that are driving the strong returns have a coined name, the "Magnificent 8." You can probably guess most of them, and they are: Amazon, Apple, Microsoft, Nvidia, Alphabet (Google), Meta (Facebook), Netflix, and Tesla. And it's the truth, these companies have been providing some remarkable returns over the last year. They were combined up 77% in 2023 compared to the rest of the S&P 500 which averaged a 10% return if we exclude the Magnificent 8.

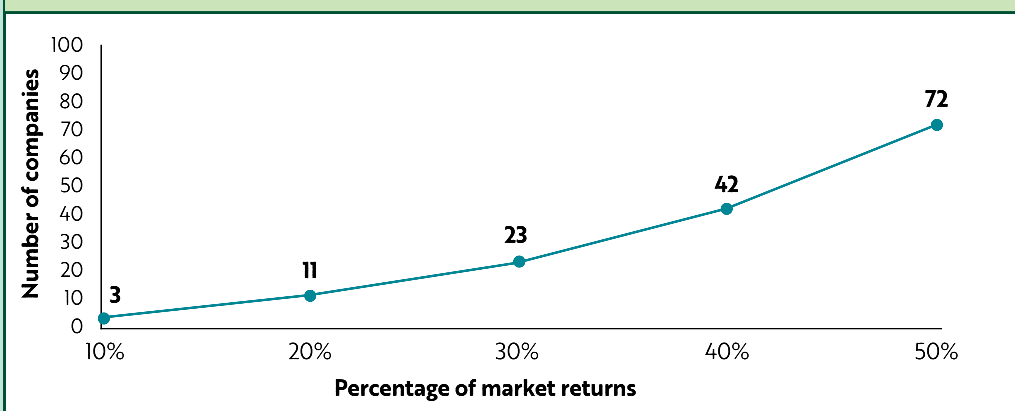
Interestingly, this is not a new phenomenon. In fact, it has occurred often throughout history. If you look at all US stock returns from 1926 to present, you are going to be looking at the returns of thousands of companies. We find it intriguing that 50% of all the returns over that time period can be attributed to only 72 companies. Wow!

As a disciplined long-term investor, your best way to take advantage of these strong returns is to actually make sure you own the whole market (owning 1000's of companies through index funds or similar investments).

So you may be thinking... why not sell everything and just invest in these select 8 companies... because after all they are clearly outperforming nearly everything else? This is an excellent moment to remind ourselves that past performance does not guarantee future results, but we can certainly learn from the past. For example, in the early 1970s a group of stocks with superior growth was dubbed "the Nifty Fifty." The companies included some long-time winners such as Pfizer, Gillette, and Coca-Cola, but also included some eventual losers such as Sears and Polaroid. Although investors rallied around the Nifty Fifty, eventually nearly all of them crashed, which then enabled other stocks to build in dominance, including smaller companies.

The lesson: Diversification is our friend because it paves the way for sustainable growth.

Number of companies that explain market returns



Are I bonds Still Worth Your Interest?

I bonds have received lots of attention in recent years, and rightfully so. The interest rates on this US government-issued bond increased sharply with the onset of higher inflation, and a number of Stone Pine clients opened accounts on the TreasuryDirect website to take advantage of these rates. But now interest rates on savings accounts and CDs have also increased, so is the I bond still a good deal? If you are currently holding I bonds, should you keep them or look for a higher-yielding alternative?

Let's review how the interest rate is calculated. There are two components to the composite rate: the fixed rate and the inflation rate.

Fixed rate:

Every May and November the government will adjust the fixed interest rate which will then apply to all bonds issued in the following 6 months. This rate will then apply for the life of the bond.

Date the fixed rate was set	Fixed rate for bonds issued in the six months after that date
November 1, 2023	1.30%
May 1, 2023	0.90%
November 1, 2022	0.40%
May 1, 2022	0.00%

Inflation rate:

The inflation rate is set each May and November and applies for 6 months to all I bonds (both new bonds as well as all existing bonds).

Date the fixed inflation was set	Inflation rate for all I bonds issued for six months
November 1, 2023	1.97%
May 1, 2023	1.69%
November 1, 2022	3.24%
May 1, 2022	4.81%

Composite Rate: a combination of the fixed rate (always stays the same) and the inflation rate (adjusts every 6 months) gives you the I bond's current interest rate.

Example:

Let's say someone purchased I bonds at three separate times:
1) June 2022 2) January 2023 3) January 2024

What rate of **"annualized interest"** are they **currently** receiving on these three bonds?

Keep in mind that the inflation rates are listed for 6-month periods. This can be confusing because we normally think about interest rates on an annual basis. So for simplicity purposes, we will multiply the current inflation rate x 2, to get an annualized rate (although being mindful that the actual inflation rate will change again in May). This will help us compare the current rate they're receiving to other investment alternatives.

	Fixed Rate	Current Inflation Rate (1.97% x 2)	Total Current Interest
June 2022	0.00%	3.94%	**3.94%**
January 2023	0.40%	3.94%	**4.34%**
January 2024	1.30%	3.94%	**5.24%**

Alternatives:

High-yield savings accounts and CD's have current rates ranging from **4% to over 5%.**

Conclusion:

While I bonds still pay competitive rates, other savings products have caught up. This coupled with the restriction of only being allowed to buy $10,000 of I bonds per year, could make savings accounts and CD's more attractive at the moment.

Spring Meetings

We will be contacting you shortly to schedule our spring planning meetings. These meetings will be held at the end of April and beginning of May. During our meeting, we will focus on your investment portfolio and review any questions or concerns you may have. The meetings will be held either in person at our office or via Zoom or phone call. We prefer to have meetings in person or via Zoom so that we can share our materials with you. We look forward to meeting with you soon!

Stay Tuned for Upcoming Events:

Tyler Arboretum Community Service	Thurs, April 11 9 AM
Educational Seminar: Continuing Care Retirement Communities	Wed, June 5 6:30 PM
Educational Seminar: Market Implications of the 2024 Election	Mon, Sept 30 11 AM
Annual Client Appreciation Event	Fall TBD

Dates and details coming soon!

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Retirement in Focus

IRMAA: The Medicare Surcharge

One retirement question we often get asked about is the potential for a medicare surcharge, otherwise known as IRMAA. Read on to find out what IRMAA is, how to avoid it, and if warranted, how to appeal it.

The income-related monthly adjustment amount, or IRMAA, is a fee you pay on top of your Medicare Part B and Part D premiums if the income on your tax return is above the annual thresholds. If you file your taxes as an individual and your modified adjusted gross income ("MAGI") is under $103,000 OR if you file a joint return and your MAGI is under $206,000, then the surcharge doesn't apply to you. If your income is over either of those thresholds, then you will need to pay an additional premium for Medicare. Below is a chart showing the cost of Part B depending on your MAGI.

2024 Medicare Part B IRMAA

Individual tax return (2022 income)	Joint tax return (2022 income)	Monthly Medicare Part B premium
Up to $103,000	Up to $206,000	$174.70
$103,001 - $129,000	$206,001- $258,000	$244.60
$129,001 - $161,000	$258,001 - $322,000	$349.40
$161,001 - $193,000	$322,001 - $386,000	$454.20
$193,001 - $500,000	$386,001 - $750,000	$559
$500,000 or more	$750,000 or more	$594

In order to avoid IRMAA in retirement it's important to keep an eye on your MAGI and strategize how you are creating income. As your advisor, Stone Pine is already strategizing this for you. Strategies include reviewing where you generate income (e.g., Social Security, tax-deferred retirement accounts, taxable accounts that will include some basis) and considering Roth conversions in early retirement if you're projecting to have large required minimum distributions in the future that will push you over the income limits.

Sometimes a Medicare surcharge is unavoidable. Let's say you own a home or investment with large capital gains. These gains plus your other income could easily place you within the IRMAA surcharge brackets. The good news is that this is temporary. Medicare is looking at your income every year (each year they look back at your tax return from 2 years ago) and so you may only have to pay the higher premiums for 12 months.

There may also be instances when you can request a reduction in your IRMAA or appeal the surcharge. One situation we see quite often is when a new retiree enters Medicare for the first year. For the purposes of determining MAGI Medicare reviews your tax return from 2 years prior. Of course, if you were working full-time at a highly paid job during those previous two years, your MAGI may show an amount that is much higher than your retirement income. This would warrant an appeal.The appeal form can be found here: https://www.ssa.gov/forms/ssa-44.pdf.