# Financial Strategies 

News You Can Use!!

Managing Director - Investments<br>Oppenheimer \& Co. Inc.<br>Hal Perkins<br>711 Louisiana<br>Suite 1500<br>Houston, TX 77002<br>713-650-2119<br>713-650-2142 Fax<br>hal.perkins@opco.com<br>https://www.oppenheimer.com/perkinsgroup/

## Retirement Age Expectations vs. Reality

Workers typically plan to retire much later than the actual age reported by retirees. In the 2022 Retirement Confidence Survey, $65 \%$ of workers said they expect to retire at age 65 or older (or never retire), whereas $69 \%$ of retirees left the workforce before reaching age 65 . When choosing a retirement age, it might be wise to consider a contingency plan.


Source: Employee Benefit Research Institute, 2022

## Debt Optimization Strategies

To help improve your financial situation, you might consider reducing your debt. Before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including interest rates, payment requirements, and any prepayment or other penalties.

## Start with Understanding Minimum Payments

You are generally required to make minimum payments on your debt, based on factors set by the lender. Failure to make the minimum payments can result in penalties, higher interest rates, and default. If you make only the minimum payments, it may take a long time to pay off the debt, and you will have to pay more interest over the life of the loan. This is especially true of credit-card debt.
Your credit-card statement will indicate your current monthly minimum payment. To find the factors used in calculating the minimum payment amount each month, you can review terms in your credit-card contract, which can change over time.
The minimum payment for credit cards is usually equal to the greater of a minimum percentage multiplied by the card's balance (plus interest on the balance, in some cases) or a base minimum amount (such as $\$ 15)$. For example, assume you have a credit card with a current balance of $\$ 2,000$, an interest rate of $18 \%$, a minimum percentage of $2 \%$ plus interest, and a base minimum amount of $\$ 15$. The initial minimum payment required would be $\$ 70$ [greater of ( $\$ 2,000 \mathrm{x}$ $2 \%)+(\$ 2,000 \times(18 \% \div 12))$ or $\$ 15]$. If you made only the minimum payments (as recalculated each month), it would take 114 months (almost 10 years) to pay off the debt, and you would pay total interest of $\$ 1,314$. For consumer loans, the minimum payment is generally the same as the regular monthly payment.

## Make Additional Payments

Making payments in addition to your regular or minimum payments can reduce the time it takes to pay off your debt and the total interest paid. Additional payments could be made periodically, such as monthly, quarterly, or annually.
Using the previous example ( $\$ 70$ initial minimum payment), if you made monthly payments of $\$ 100$ on the credit card debt, it would take only 24 months to pay off the debt, and total interest would be just $\$ 396$.
Here's another example. Assume you have a current mortgage balance of $\$ 300,000$. The interest rate is $5 \%$, the monthly payment is $\$ 2,372$, and the remaining term is 15 years. If you make regular payments, you will pay total interest of $\$ 127,029$. However, if you pay an additional $\$ 400$ each month, it will take only 12 years and one month to pay off the mortgage, and you will pay total interest of just $\$ 99,675$.

## Pay Off Highest Interest-Rate Debt First

One way to potentially optimize payment of your debt is to first make the minimum payments required for each debt and then allocate any remaining dollars to debt with the highest interest rates.
For example, assume you have two debts, you owe $\$ 10,000$ on each, and each has a monthly payment of $\$ 200$. The interest rate for one debt is $8 \%$; the interest rate for the other is $18 \%$. If you make regular payments of $\$ 400$, it will take 94 months until both debts are paid off, and you will pay total interest of $\$ 10,827$. However, if you make monthly payments of $\$ 600$, with the extra $\$ 200$ paying off the debt with an $18 \%$ interest rate first, it will take only 41 months to pay off the debts, and total interest will be just $\$ 4,457$.

## Pay Off Highest Interest-Rate Debt First



## Use a Debt-Consolidation Loan

If you have multiple debts with high interest rates, it may be possible to pay them off with a debt-consolidation loan. Typically, this will be a home-equity loan with a lower interest rate than the rates on the debts being consolidated. (Note that a federal income tax deduction is not currently allowed for interest on home-equity indebtedness unless it is used to substantially improve your home.) Keep in mind that a home equity-loan potentially puts your home at risk because it serves as collateral, and the lender could foreclose if you fail to repay. There also may be closing costs and other charges associated with the loan.
All examples are hypothetical and used for illustrative purposes only and do not represent any specific investments or products. Fixed interest rates and payment terms are shown, but actual interest rates and payment terms may change over time. Actual results will vary.

# When Should Young Adults Start Investing for Retirement? 

As young adults embark on their first real job, get married, or start a family, retirement might be the last thing on their minds. Even so, they might want to make it a financial priority. In preparing for retirement, the best time to start investing is now - for two key reasons: compounding and tax management.

## Power of Compound Returns

A quick Internet search reveals that Albert Einstein once called compounding "the most powerful force in the universe," "the eighth wonder of the world," or "the greatest invention in human history." Although the validity of these quotes is debatable, Einstein would not have been far off in his assessments.
Compounding happens when returns earned on investments are reinvested in the account and earn returns themselves. Over time, the process can gain significant momentum.
For example, say an investor put $\$ 1,000$ in an investment that earns $5 \%$, or $\$ 50$, in year one, which gets reinvested, bringing the total to $\$ 1,050$. In year two, that money earns another $5 \%$, or $\$ 52.50$, resulting in a total of $\$ 1,102.50$. Year three brings another $5 \%$, or $\$ 55.13$, totaling $\$ 1,157.63$. Each year, the earnings grow a little bit more.
Over the long term, the results can snowball. Consider the examples in the accompanying chart.

## A Head Start Can Be a Strong Ally

This chart illustrates how much an investor could accumulate by age 65 by investing $\$ 3,000$ a year starting at age 25,35 , and 45 and earning a $6 \%$ annual rate of return, compounded annually.


[^0]
## Tax Management

Another reason to start investing for retirement now is to benefit from tax-advantaged workplace retirement plans and IRAs.

Lower taxes now. Contributions to traditional 401 (k)s and similar plans are deducted from a paycheck before taxes, so contributing can result in a lower current tax bill. And depending on a taxpayer's income, filing status, and coverage by a workplace plan, contributions to a traditional IRA may result in an income tax deduction.
Tax-deferred compounding. IRAs and workplace plans like $401(\mathrm{k}) \mathrm{s}$ compound on a tax-deferred basis, which means investors don't have to pay taxes on contributions and earnings until they withdraw the money. This helps drive compounding potential through the years.

Future tax-free income. Roth contributions to both workplace accounts and IRAs offer no immediate tax benefit, but earnings grow on a tax-deferred basis, and qualified distributions are tax-free. A qualified distribution is one made after the Roth account has been held for five years and the account holder reaches age $591 / 2$, dies, or becomes disabled.
Saver's Credit. In 2022, single taxpayers with adjusted gross incomes of up to \$34,000 (\$66,000 if married filing jointly) may qualify for an income tax credit of up to $\$ 1,000$ ( $\$ 2,000$ for married couples) for eligible retirement account contributions. Unlike a deduction - which helps reduce the amount of income subject to taxes - a credit is applied directly to the amount of taxes owed.
Avoiding penalties. Keep in mind that withdrawals from pre-tax retirement accounts prior to age $591 / 2$ and nonqualified withdrawals from Roth accounts are subject to a $10 \%$ penalty on top of regular income tax.

## Additional Fuel for the Fire

Workplace plans that offer employer matching or profit-sharing contributions can further fuel the tax-advantaged compounding potential. Investors would be wise to consider taking full advantage of employer matching contributions, if offered.

## Don't Delay

With the power of compounding and the many tax advantages, it may make sense to make retirement investing a high priority at any age.

## Virtual Health Care Is Here to Stay

The use of telehealth skyrocketed early in the COVID-19 pandemic, with the number of remote office visits and outpatient services 78 times higher in April 2020 than in February 2020. Usage has stabilized since then, but as of early 2021 remained 38 times higher than the pre-pandemic level. 1
More recent data indicates that remote health care is here to stay. In August 2022, almost $23 \%$ of adults said they had an appointment with a health professional over video or phone during the previous four weeks. ${ }^{2}$

## Remote Access

Telehealth encompasses a broad range of remote services including virtual office visits (also called telemedicine), remote patient monitoring, patient-physician communication through secure emails and websites, and online physician-to-physician consultation. Patients have immediate access to advice and treatment any time of the day or night, while avoiding unnecessary and costly emergency room visits. But telehealth is not only for emergency or off-hours situations; it also can be a more convenient and cost-effective way to get medical care that might normally be handled in a doctor's office.
Telehealth can be used to treat minor problems such as allergies and rashes, or for an urgent condition such as a high fever. It makes it easier to access therapy for mental health issues such as depression
and anxiety, and can fill gaps in the availability of specialty care. In other cases, doctors can remotely monitor the vital signs of patients with chronic conditions or follow up after a hospital discharge, and physical therapists can lead patients through exercises and monitor their progress.
In 2021, $94 \%$ of large employers offered traditional telemedicine services, $28 \%$ offered a virtual behavioral health-care network, $25 \%$ offered targeted virtual health solutions for specific conditions such as diabetes and musculoskeletal problems, and 16\% offered a virtual primary-care service or network. About 12\% of eligible employees used a telemedicine service in the first half of 2021.3
Original Medicare and Medicare Advantage plans also cover a wide variety of telehealth services. Some of these were specifically added to coverage because of the pandemic and are scheduled to expire at the end of 2023.4 Considering the convenience and cost savings associated with telehealth, it is possible they will be extended, but that remains to be seen.
If your health plan includes telehealth services, you might take a closer look at the details, download the app, and/or register for an online account. You'll be ready to log in quickly the next time you or someone in your family faces a medical problem.

1) McKinsey \& Company, July 9, 2021; 2) Centers for Disease Control and Prevention, 2022; 3) Mercer, May 12, 2022; 4) Centers for Medicare \& Medicaid Services, 2022

The content herein should not be construed as an offer to sell or the solicitation of an offer to buy any security. The information enclosed herewith has been obtained from outside sources and is not the product of Oppenheimer \& Co. Inc. ("Oppenheimer") or its affiliates. Oppenheimer has not verified the information and does not guarantee its accuracy or completeness. Additional information is available upon request. Oppenheimer, nor any of its employees or affiliates, does not provide legal or tax advice. However, your Oppenheimer Financial Advisor will work with clients, their attorneys and their tax professionals to help ensure all of their needs are met and properly executed. Oppenheimer \& Co. Inc. Transacts Business on all Principal Exchanges and is a member of SIPC.


[^0]:    These hypothetical examples of mathematical compounding are used for illustrative purposes only and do not reflect the performance of any specific investments. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Investments offering the potential for higher rates of return also involve a higher degree of investment risk. Actual results will vary.

