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Financial Focus

A Monthly Insight Into Your Finances

August 2023

Don't Underestimate These Retirement Expenses

As you head towards retirement and your excitement grows, don't forget to consider your likely retirement expenses.

An AARP article, 10 Biggest Expenses in Retirement has some interesting information about retirement expenses.

Healthcare Expenses Can Pack a Punch
For many, healthcare is an underestimated retirement expense. If you're currently in good health, your healthcare spending when your first retire will likely be pretty reasonable. But as your age into your 80s and beyond, your healthcare spending is likely to surge.

Often total healthcare expenses during retirement are lower for husbands because statistically, their wives will outlive them and provide them with caregiving activities. That also means the surviving spouse must often cover their own caregiving expenses, which tend to very widely in different parts of the country.

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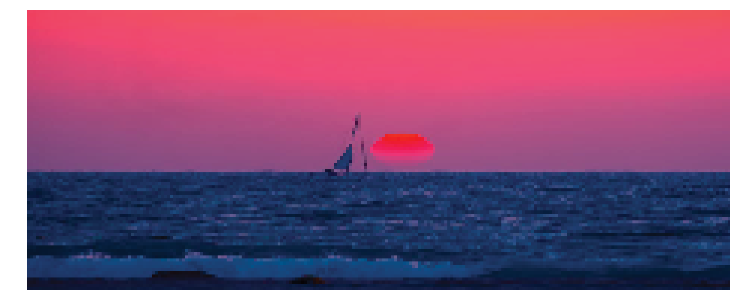

The Sun Rotates Just Like the Rest of Planets

Even though the Sun isn't solid like Earth, it still has a rotation as the plasma swirls around its surface. On average, it takes 27 Earth days for the Sun to rotate once on its axis, but different parts move at different speeds. The equatorial regions take just 24 days to rotate and the polar regions more than 30.

https://www.nhm.ac.uk/discover/factfile-the-sun.html

Easy Sheet-Pan Chicken Fajitas

INGREDIENTS

- 2 tsp. chili powder
- 1/2 tsp. ground cumin and smoked paprika
- 2 tsp. garlic powder
- 1 tsp. kosher salt and black pepper
- 1 lb. boneless skinless chicken breasts, cut into 1/2" strips
- 3 red and yellow bell peppers, thinly sliced
- 1 yellow onion, thinly sliced
- 2 tbsp. avocado oil
- Juice of 2 limes

DIRECTIONS

1. Preheat oven to 425° and grease a large rimmed baking sheet with cooking spray. In a small bowl, whisk together spices.
2. In a large bowl, combine chicken, bell peppers, onions, avocado oil, and lime juice. Add spice mix and toss until completely coated. Spread fajita mixture in an even layer onto prepared baking sheet.
3. Bake until chicken is cooked through and no longer pink and vegetables are tender, 20 to 25 minutes.
4. Divide mixture among four resealable containers and store in the fridge until ready to eat.
5. Serve topped with avocado and tomatoes.

https://www.delish.com/cooking/recipe-ideas/a25564755/sheet-pan-chicken-fajitas-recipe/

DON'T UNDERESTIMATE…

Currently, healthcare expenses are seeing faster inflation rates than any other spending category. And the article points to experts who think healthcare costs will increase about five percent annually during the next 30 years. That's roughly twice the rate of other costs.

Considering the expected future costs of healthcare, it may be all the more important to be thoughtful about discretionary spending like restaurants and travel while you're in your 60s and 70s so that you have the money you'll likely need in your 80s and 90s.

Home Maintenance Costs are Forever
Home maintenance is another considerable but underestimated expense during retirement. Necessary home projects don't vanish once you retire. If you intend to stay in your home for several years after you retire, there's a good chance that you'll see your home maintenance expenses increase. The reason for that is that you'll probably have to hire people or service companies to take on many of the tasks around the house that you handled yourself when you were younger.

That includes things like mowing the lawn, cleaning gutters and windows, repairing loose floorboards, unplugging drains, and more. In retirement, some folks may even have to hire a home cleaner for the first time, because vacuuming and other regular tasks are too much. All those services are convenient and necessary, but they also cost money.

Hitting the Open Road
During retirement, travel costs may vary significantly depending on where you go, when you go, and how you go. If you're paying for kids and grandkids to join you or you're staying at a five-star resort, you're obviously going to spend a lot more than you would for a state park camping trip.

It's often recommended that retirees travel more often early in retirement because as you age, you may not be able to venture out as much and you may also need extra money for healthcare expenses.

Transportation Will Cost You
The article next addresses transportation. Even though many folks no longer have to worry about a commute after they retire, most are still going to need a reliable set of wheels to get to appointments, the grocery store, and to a grandkid's Little League games.

Early in retirement, that may mean hanging on to the car you had during the last couple years you were working, or it may mean replacing it with something reliable and affordable.

But either way, you must factor in gas, insurance, oil changes, tires, and unexpected maintenance. Much like it is with your home, your car's needs don't vanish because you're no longer working.

The Meter Keeps Running Even in Retirement
The next retirement expense that some folks fail to adequately consider is utilities. Thankfully, as the article notes, many retirees enjoy lower utility expenses. After all, in retirement you no longer have teenagers taking hot 45-minute showers or firing up the oven twice a day for pizza rolls.

A number of retirees also downsize soon after leaving their careers which naturally means less cost for heating and air conditioning.

But even with a smaller home and fewer people in that home, the rates utility companies charge consumers are likely to increase regularly, if not annually.

Source: https://www.aarp.org/money/budgeting-saving/info-2023/most-common-underestimated-expenses.html

FINANCING OPTIONS TO HELP YOU RIDE THE MORTGAGE RATE TOLLER COASTER

The mortgage industry has been on a roller coaster ride over the last couple of years. Interest rates for fixed-rate mortgage loans were at historical lows during the beginning of the pandemic in 2020, rising to a 20-year high in late 2022 — and fluctuating ever since.[1] Many buyers are finding it difficult to afford a new home with traditional fixed-rate mortgage loans in such a high interest rate environment. As a result, more buyers are relying on alternative financing options to help lower their interest rates.[2]

Adjustable-Rate Mortgages
With an adjustable-rate mortgage (ARM), also referred to as a variable-rate mortgage, there is a fixed interest rate at the beginning of the loan which then adjusts annually for the remainder of the loan term. ARM rates are usually tied to the performance of an index. To determine the ARM rate, the lender will take the index rate and add it to an agreed-upon percentage rate, referred to as the margin. Most lenders offer ARMs with fixed-rate periods of five, seven or 10 years, along with caps that limit the amount by which rates and payments can change.

The initial interest rate on an ARM is generally lower than the rate on a traditional fixed-rate mortgage, which will result in a lower monthly mortgage payment. However, depending on interest rates, buyers with ARMs may find themselves with significantly higher mortgage payments once the fixed-rate period ends. Buyers should only consider ARMs if they can tolerate fluctuations in their mortgage payments or plan on refinancing or selling the home before the initial interest rate period ends.

Temporary Buydowns
A temporary buydown provides the buyer with a lower interest rate on a fixed-rate mortgage during the beginning of the loan period (e.g., the first one or two years) in exchange for an upfront fee or higher interest rate once the buydown feature expires. Buydowns typically offer large interest rate discounts (e.g., up to one to three percentage points, depending on the type of buydown). The costs associated with the buydown feature can be paid for by the home buyer, seller, builder, or mortgage lender.

While a buydown can make a home purchase more affordable at the beginning of the loan period, the long-term interest rates and mortgage payments on the loan can end up being substantially higher. This is why a borrower usually must initially qualify for the loan based on the full interest rate in effect after the buydown expires.

Assumable Mortgages
Assumable mortgages may be another way for buyers to circumvent high mortgage rates. An assumable mortgage is when a buyer takes over a seller's existing loan and loan terms and pays cash or takes out a second mortgage to cover the remainder of the purchase price.

This type of loan could be advantageous if the existing loan has a low enough interest rate, and the buyer has enough access to cash or financing to cover the difference between the sale price and outstanding balance of the assumed loan. Not all mortgage loans are assumable — generally they are limited to certain types of government-backed loans (e.g., FHA, VA loans).

Other Incentives
One type of incentive offered by lenders is for a buyer to pay an upfront fee at closing, also known as points. By paying points at closing, buyers can reduce their interest rates — usually by around .25 percent per point— and lower their monthly mortgage loan payments. To make paying points cost effective, buyers should plan on staying in the home for several years so that they can recoup the costs. Sometimes a home builder or seller will offer to pay for points on a mortgage in order to attract more potential buyers.

Another incentive, often referred to as a "future refi," is one that allows borrowers to purchase a home at current interest rates, with the ability to refinance their loans at a later date. The refinancing can be free or the costs can be rolled into the new loan, depending on the lender and loan type. Keep in mind that there is typically a set time period for refinancing with these types of loans.

1-2) Consumer Financial Protection Bureau, 2022 https://www.consumerfinance.gov/about-us/blog/mortgage-financing-options-in-a-higher-interest-rate-environment/