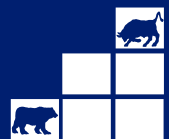




# Investing for Retirement

TOOLKIT

The Capital Management Corporation  
INVESTMENT COUNSEL



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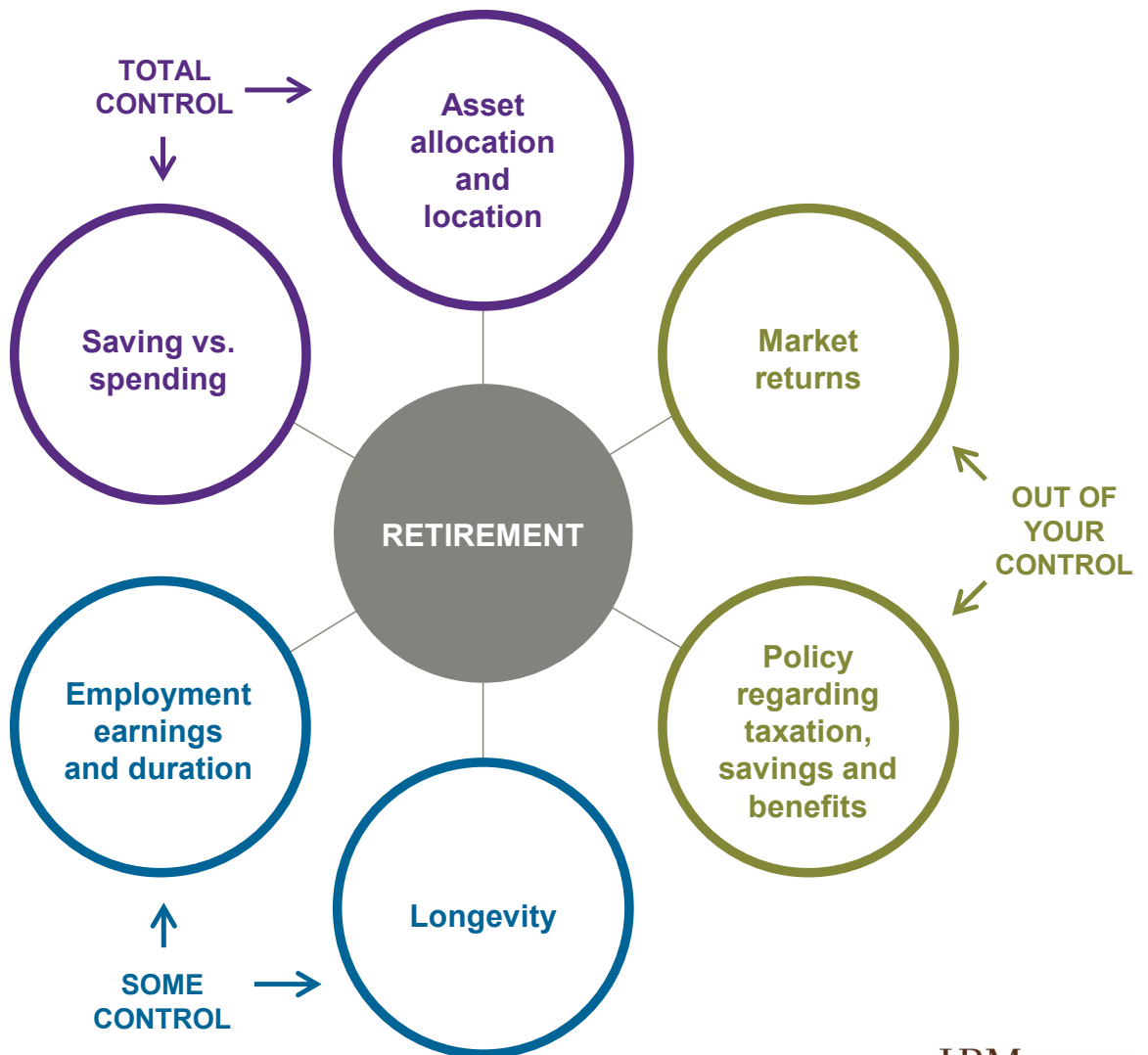
## Introduction

Established in 1964, The Capital Management Corporation (CMC) is a SEC-registered investment advisor providing investment management services to institutions, foundations, and high net worth individuals. The firm is 100% employee owned and operated with the singular purpose of managing long-term investment portfolios.

CMC strives to maximize investor return and minimize loss by applying a principled and disciplined proprietary process. CMC holds itself to the highest standards of fiduciary duty and is among a select group of investment management companies that are Global Investment Performance Standards® (GIPS) compliant.

# Preparing for Your Retirement

Spending money during retirement is a challenge because most retirees have little income outside of their savings. It is useful to create a plan for how you will space out your spending to take control of your retirement finances and ensure that you don't draw too quickly from your savings. This plan is your retirement budget.



Source: The Importance of Being Earnest, J.P. Morgan Asset Management, 2013.

\* See Appendix A for Key Financial Data.

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# Retirement Rules of Thumb

Two frequently used rules of thumb for retirement spending are known as the 4% and 6% rules. It's relatively simple: You add up all of your investments, and withdraw 4% or 6% of that total during each year of retirement.

**The 4% Rule** allows retirees to avoid impairing the principal and the principal's ability to grow with inflation.

4% of your investable assets:

Monthly: \_\_\_\_\_ Annually: \_\_\_\_\_

**The 6% Rule** allows retirees to withdraw 6% of their risk adjusted investable assets each year without impairing the principal.

6% of your investable assets:

Monthly: \_\_\_\_\_ Annually: \_\_\_\_\_

## Liquid Investments

Total Investments	Amount
• Cash Equivalents	\$
• IRA	\$
• Roth IRA	\$
• Living Trust	\$
• Uniform Transfers to Minors Act (UTMA)	\$
• 529 Funds	\$
• Dividend Appreciation (DVD)	\$
• Small & Midcap (SMID)	\$
• Growth & Income (G&I)	\$
• Growth	\$
• Balanced	\$
• Managed Fund Program (MFP)	\$

Total: \$ \_\_\_\_\_

\*See Appendix B for a Sample Budget Worksheet.

# Preparing for Your Retirement

Your retirement will be paid for by the money generated from both your non-investment activities and your investment assets.

## Non-Investment Income

### Social Security:

Social Security is a U.S. government anti-poverty program and provides replacement income for almost every American worker.

In order to qualify for social security, you must have spent at least 10 years in “covered” work and the monthly payments. “Covered” work means that Social Security taxes were taken out of your wages while you were doing that work. Monthly payments are calculated based on the highest 35 years of your working salary. If you meet the requirements, plan on receiving social security in your budget.

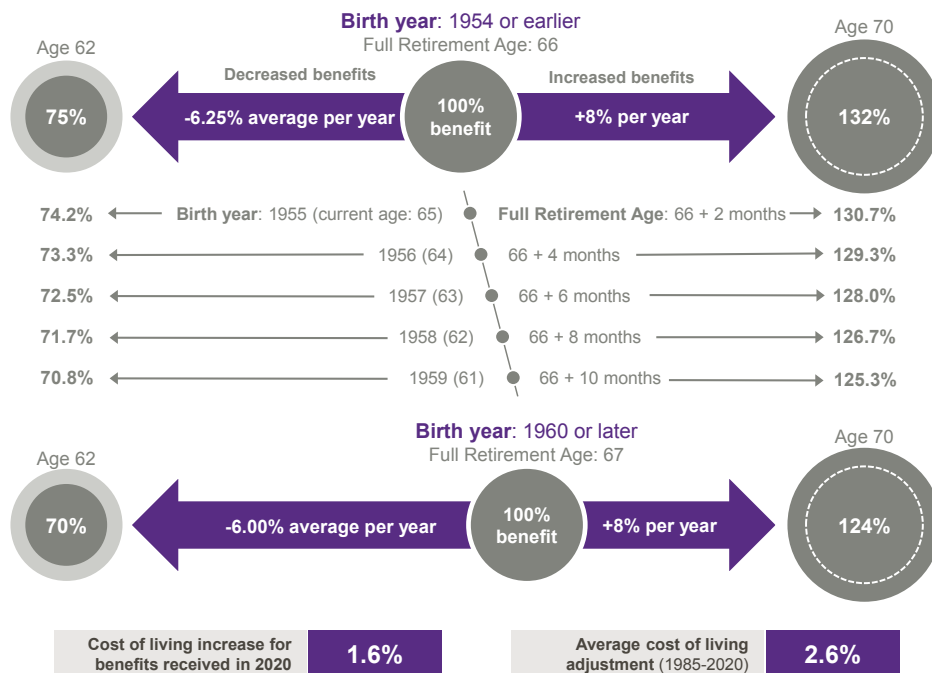
You can start receiving your social security benefits by the age of 62. Full retirement age (FRA) is 67. You can start receiving social security at any time between 62 and 70, but your monthly payment will increase the longer you wait to start receiving benefits. The decision on when to start receiving your benefits is based on your life expectancy and your other sources of income.

If you are starting to think about receiving social security, please see the attached charts on the next four pages. In most cases waiting until you are 70 to start collecting Social Security will provide the maximum benefit.

## Social security timing tradeoffs

### Benefits differ by birth year and claim age

Full Retirement Age = 100% benefit



### UNDERSTAND THE TRADEOFFS

Deciding when to claim benefits will have a permanent impact on the benefit you receive. Claiming before your full retirement age can significantly reduce your benefit, while delaying increases it.

In 2017, full retirement age began transitioning from 66 to 67 by adding two months each year for six years. This makes claiming early even more of a benefit reduction.

For illustrative purposes only. The Social Security Amendments Act of 1983 increased FRA from 65 to 67 over a 40-year period. The first phase of transition increased FRA from 65 to 66 for individuals turning 62 between 2000 and 2005. After an 11-year hiatus, the transition from 66 to 67 (2017-2022) will complete the move.

Source: Social Security Administration, J.P. Morgan Asset Management.

# Investment Income

Your financial assets can generate income for you through stocks, bonds, and real estate.

## Tax-Deferred Accounts:

Tax-deferred investment options allow you to invest your money pre-tax so neither your contributions nor any earnings are taxed until you start drawing on that money.

## Employee Retirement Plans:

### 401 (K) Plan

A 401(k) is a savings plan that allows you to automatically invest part of your paycheck in mutual funds, bonds, and company stock. Your choices will be limited to the specific investments your company offers through its plan, but you get to choose how much (up to specific limits) and where to put your money.

401(k) contributions also come out of your paycheck before taxes are applied, reducing your taxes. And 401(k) plans grow tax deferred until you withdraw your money in retirement. Also, many employers match on your contributions up to a certain percentage of your salary. You can't withdraw your money while you are employed before the age of 59½.

### 403(b) Plan

A 403(b) plan is a retirement account for certain employees of public schools and tax-exempt organizations. Participants include teachers, school administrators, professors, government employees, nurses, doctors, and librarians. It is similar to a 401(K) Plan and has the same contribution limit, age limit, and early withdrawal penalty.

### 457 Plan

457 plans are non-qualified, tax-advantaged, deferred compensation retirement plans offered by state governments, local governments, and some nonprofit employers. Eligible participants are able to make salary deferral contributions, depositing pre-tax money that is allowed to compound without being taxed until it is withdrawn.

### SIMPLE IRA

A SIMPLE IRA plan (Savings Incentive Match Plan for Employees) allows employees and employers to contribute to traditional IRAs set up for employees. It is ideally suited as a start-up retirement savings plan for small employers not currently sponsoring a retirement plan.

### SEP IRA

A Simplified Employee Pension (SEP) plan provides business owners with a simplified method to contribute toward their employees' retirement as well as their own retirement savings. Contributions are made to an Individual Retirement Account or Annuity (IRA) set up for each plan participant (a SEP-IRA). It is a traditional IRA and follows the same investment, distribution, and rollover rules as traditional IRAs.

Generally, SEP IRAs are best for self-employed people or small-business owners with few or no employees.

# Retirement plan contribution and deferral limits - 2020/2021

Type of Retirement Account	Specifics	2020	2021
401(k), 403(b), 457(b)	401(k) elective deferral limit/with catch-up contribution (age 50 and over)	\$19,500 /\$26,000	\$19,500 /\$26,000
	Annual defined contribution limit	\$57,000	\$58,000
	Annual compensation limit	\$285,000	\$290,000
	Highly compensated employee threshold	\$130,000	\$130,000
	403(b)/457 elective deferrals/with catch-up contribution (age 50 and over)	\$19,500 /\$26,000	\$19,500 /\$26,000
SIMPLE IRA	SIMPLE employee deferrals/with catch-up deferral (age 50 and over) <sup>1</sup>	\$13,500 /\$16,500	\$13,500 /\$16,500
SEP IRA	Maximum contribution <sup>2</sup>	\$57,000	\$58,000
	SEP minimum compensation	\$600	\$650
	SEP annual compensation limit	\$285,000	\$290,000
Health Savings Account (HSA)	Maximum contribution amount/with catch-up contribution (age 55 and over)	<b>Single:</b> \$3,550 /\$4,550 <b>Family:</b> \$7,100 /\$8,100 <sup>3</sup>	<b>Single:</b> \$3,600 /\$4,600 <b>Family:</b> \$7,200 /\$8,200 <sup>3</sup>
	Minimum deductible	<b>Single:</b> \$1,400 <b>Family:</b> \$2,800	<b>Single:</b> \$1,400 <b>Family:</b> \$2,800
	Maximum out-of-pocket expenses	<b>Single:</b> \$6,900 <b>Family:</b> \$13,800	<b>Single:</b> \$7,000 <b>Family:</b> \$14,000
Social Security	Wage base	\$137,700	\$142,800
	Maximum earnings test exempt amounts <sup>4</sup>	\$18,240 /year (before FRA*) \$48,600 /year (in year of FRA)	\$18,960 /year (before FRA) \$50,520 /year (in year of FRA)
	Maximum Social Security benefit at FRA	\$3,011 /month	\$3,113 /month
Defined benefit – Maximum annual benefit at retirement		\$230,000	\$230,000

\*FRA is Full Retirement Age for Social Security.

<sup>1</sup>Employer may either match employee's salary reduction contributions dollar for dollar up to 3% of employee's compensation or make non-elective contributions equal to 2% of compensation up to the annual compensation limit. IRS Publication 560 and Notice 2019-59.

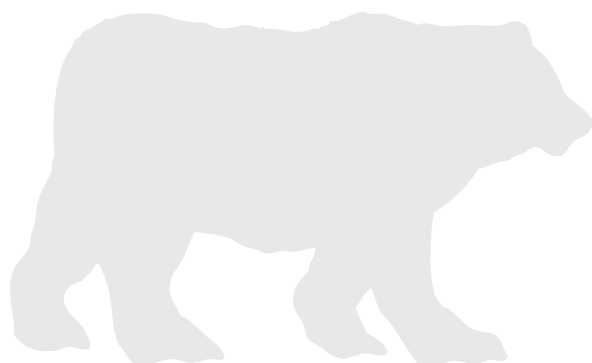
<sup>2</sup>Employer contributions may not exceed the annual defined contribution limit or 25% of compensation. Other rules apply for self-employed individuals. IRS Publication 560.

<sup>3</sup>Internal Revenue Procedure 2019-25, May 28, 2019 and Internal Revenue Procedure 2030-32, May 20, 2020.

<sup>4</sup>In calendar years before FRA, benefit reduced \$1 for every \$2 of earned income above the limit; during year of FRA, benefit reduced \$1 for every \$3 of earned income in months prior to FRA. SSA.gov as of November 2, 2020.

Source: IRS.gov.

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## Individual Retirement Accounts (IRA)

IRAs are tax deferred, personal retirement accounts. You can contribute every year that you have earned income, whether or not you participate in an employer's retirement plan. You can contribute to your IRA up to \$6,000 a year. The contribution limit increases to \$7,000 when you are 50. Withdrawals before the age of 59½ years old may be taxed as income and may have a 10% penalty. The 2 types of IRAs are Traditional and Roth.

### Traditional IRA

All traditional IRAs are tax deferred which means you owe no tax on your earnings until you withdraw. Your contributions can be tax deductible. You must start taking required minimum distributions (RMDs) when you reach the age of 72.

### Spousal IRA

If your spouse does not work, but you do, you can contribute up to the annual limit into a separate spousal IRA in addition to your own contribution. The advantage for the nonworking spouse is being able to build a Traditional or Roth individual retirement fund.

### Roth IRA

Roth IRAs are tax deferred, but are taxed on your contributions. Your withdrawals are tax free and you do not have any required minimum distributions.

## Traditional IRAs vs. Roth IRAs - 2020/2021

	Traditional IRA	Roth IRA	Roth IRA conversion
Maximum contribution 2021	<ul style="list-style-type: none"> <li>\$6,000 (earned income)</li> <li>\$7,000 (age 50 and over)<sup>1</sup></li> <li>Reduced by Roth IRA contributions</li> </ul>	<ul style="list-style-type: none"> <li>\$6,000 (earned income)</li> <li>\$7,000 (age 50 and over)<sup>1</sup></li> <li>Reduced by Traditional IRA contributions</li> </ul>	No limit on conversions of Traditional IRAs, SEP IRAs, SIMPLE IRAs (if open 2+ years)
Tax-deductibility income limits (Traditional IRA) and contribution income limits (Roth IRA)	<p>If you or your spouse is covered by a retirement plan at work, tax-deductibility of contributions phases out at these income levels:</p> <p><b>2020</b> Single: \$65,000-\$75,000<sup>2</sup> Married: \$104,000-\$124,000<sup>2</sup></p> <p><b>2021</b> Single: \$66,000-\$76,000<sup>2</sup> Married: \$105,000-\$125,000<sup>2</sup></p>	<p>Contributions are non-deductible; employer plan coverage does not change the contribution limits:</p> <p><b>2020</b> Single: \$124,000-\$139,000 Married: \$196,000-\$206,000</p> <p><b>2021</b> Single: \$125,000-\$140,000 Married: \$198,000-\$208,000</p>	N/A
Federal tax treatment	<ul style="list-style-type: none"> <li>Investment growth is tax deferred and contributions may be tax deductible. Deductible contributions and investment gains are taxed as ordinary income upon withdrawal.</li> <li>If non-deductible contributions have been made, each withdrawal is taxed proportionately on a pro-rata basis, taking into consideration all contributions made to all Traditional IRAs owned.</li> </ul>	<ul style="list-style-type: none"> <li>Taxes are due upon conversion of account balances not yet taxed.</li> <li>Qualified withdrawals of contributions at any time are tax free and IRS penalty free; converted amounts may be withdrawn tax free.<sup>3</sup></li> <li>Qualified withdrawals of earnings are tax free and IRS penalty free if taken after five years have passed since the account was initially funded and the account owner is age 59½ or older (other exceptions may be applicable).</li> <li>Multiple Roth IRAs are considered one Roth IRA for withdrawal purposes and distributions MUST be withdrawn in a specific order deemed by the IRS that applies regardless of which Roth IRA is used to take that distribution.</li> </ul>	
Early withdrawals	Early withdrawals before age 59½ are generally subject to a 10% IRS penalty unless certain exceptions apply.		
Mandatory withdrawals	By April 1 of the year after turning 72 (70½ for those born prior to July 1, 1949).	None for account owner	None for account owner
Deadline to contribute	<b>2020:</b> April 15, 2021 <b>2021:</b> April 15, 2022	<b>2020:</b> April 15, 2021 <b>2021:</b> April 15, 2022	N/A

<sup>1</sup>Must be age 50 or older by December 31 of the contribution year. IRS Publication 590.

<sup>2</sup>Assumes participation in an employer's retirement plan. No income limits apply when investors and spouses are not covered by a retirement plan at work. Income limits based on Modified AGI (Adjusted Gross Income less certain deductions). Use Worksheet 1-1 in IRS Publication 590-A or consult your tax professional.

<sup>3</sup>Distributions from a conversion amount must satisfy a five-year investment period to avoid the 10% penalty. This pertains only to the conversion amount that was treated as income for tax purposes. The presenter of this slide is not a tax or legal professional. Clients should consult a personal tax or legal professional prior to making any tax- or legal-related investment decisions. IRS Publication 590.

Source: IRS.gov.

## Stocks and Bonds:

### Dividends and Capital Gains

Both capital gains and dividend income are sources of profit for shareholders. Dividends can be a reliable source of income while preserving your capital and ownership and capital gains help build your wealth over time.

### Interest from Fixed income

Bonds pay you a fixed amount of money based on the amount paid. Bonds are typically thought of as a safer investment than stocks, but that is not always the case. As interest rates rise, bond prices may fall. Make sure the issuer of the bond is credit worthy and will not default on your loan. Like dividends, interest from bonds can be a reliable source of income. It's important to know the tax implications of all types of bonds including federal government, municipals, corporates and more.

## Other Investment Income Sources:

### Reverse Mortgages

When you have a regular mortgage, you pay the lender every month to buy your home over time. In a reverse mortgage, you get a loan in which the lender pays you. Reverse mortgages take part of the equity in your home and convert it into payments to you – a kind of advance payment on your home equity. The money you get usually is tax-free. But take your time: a reverse mortgage can be complicated and might not be right for you. A reverse mortgage can use up the equity in your home, which means fewer assets for you and your heirs. If you do decide to look for one, review the different types of reverse mortgages, and comparison shop before you decide on a particular company.

### Annuities

An annuity is a financial product that pays out a fixed stream of payments to an individual, and these financial products are primarily used as an income stream for retirees. Annuities are contracts issued and distributed (or sold) by financial institutions, which invest funds from individuals. Both the insurance company and the broker/planner may make large commissions and/or profits, whereas, the investor might not.

**Note:** CMC avoids annuities because of several red flag features such as overly-complex contracts, large fees (including front-load compensation fees), and withdrawal penalties. They also generate less income and growth than traditional stocks and their returns from fixed payments erode with inflation.



# Investment Principles

An effective strategy can help you withdraw, spend, and invest your savings for reliable income and a potentially better tax outcome. Capital Management can help you build a diversified portfolio that may increase your purchasing power and wealth while you withdraw money to maintain your daily lifestyle. The key is having a long-term mindset. Use time to your advantage as good things come to those who wait. While markets can always have a bad day, week, month or even year, history suggests investors are less likely to suffer losses over longer periods.

## Successful Long-term Investing:

### Plan on Living a Long Time

People who are 65 today have a very good chance of living to 80 or 90. But studies reveal many of us have not saved enough for the retirement years. Investors should start early by saving more, investing with discipline and having a plan for their future.

### Cash Isn't Always King

Cash is appropriate to cover short-term expenses, but cash (and equivalents, like CDs) don't offer the "safe haven" they once did. While interest rates have risen on many cash accounts, the average rate on a traditional savings account is still well below the rate of inflation, yet more than \$17 trillion in cash still sits on the sidelines. If interest rates are zero and inflation is 3%, then after 20 years cash balances have lost half of their purchasing power.

### Harness the Power of Dividends and Compounding

Investing in risk assets—and reinvesting dividends – can be powerful moves. Reinvesting dividends lets earnings continue to earn. Compounding can make an exponential difference over time, compared to stock price appreciation alone.

### Avoid Emotional Biases by Sticking to a Plan

In good times and bad, stay on course. Investors pay a heavy cost when feelings dictate (often poorly timed) decisions. Following a plan can cut losses when markets are down and quicken recovery when markets turn around. A portfolio that included bonds saw reduced losses during the financial crisis, enabling these diversified portfolios to recover much faster than a portfolio of stocks alone.

### Volatility is Normal; Don't Let it Derail You

Plan on riding out volatile market periods. Pullbacks happen. Markets suffered double digit declines in 22 of the last 40 years, yet still ended those years with positive returns 75% of the time.

### Diversification Works

Time and again, diversification serves its purpose. In the last 15 years, the world endured multiple natural disasters, numerous geopolitical conflicts and the deepest economic recession in the post-WWII era. Through it all, a diversified portfolio of stocks and bonds classes proved itself a winner.

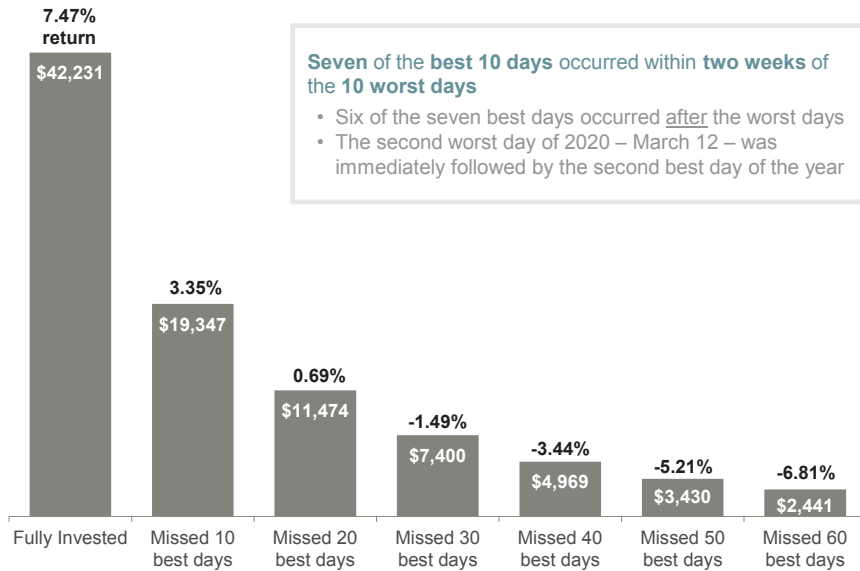
### Being Invested Matters

It's always darkest just before dawn. By missing some of the market's best days, investors can lose out on critical opportunities to grow their portfolio. Market timing can have devastating results. Six of the U.S. market's 10 best days occurred within two weeks of its 10 worst days.

# Impact of Being Out of the Market

## Returns of the S&P 500

Performance of a \$10,000 investment between January 2, 2001 and December 31, 2020



Seven of the best 10 days occurred within two weeks of the 10 worst days

- Six of the seven best days occurred after the worst days
- The second worst day of 2020 – March 12 – was immediately followed by the second best day of the year

### PLAN TO STAY INVESTED

Losses hurt more than gains feel good. Market lows can result in emotional decision making. Taking “control” by selling out of the market after the worst days is likely to result in missing the best days that follow. Investing for the long term in a well-diversified portfolio can result in a better retirement outcome.

Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2020.

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## The Bucket Approach:

One of the biggest risks to investing is having to withdraw money at inopportune times. This process interrupts the compounding process and can greatly reduce your wealth. The Bucket Approach is a straightforward method that helps mitigate this risk. The basic idea is you have 3 buckets in which you allocate capital based on when you plan the money will be spent.

### Bucket #1 (1-2 Years)

Bucket #1 is the cash component of your portfolio that holds money for near-term spending needs up to two years' worth of living expenses. This bucket will help you cope with the fluctuations of the market.

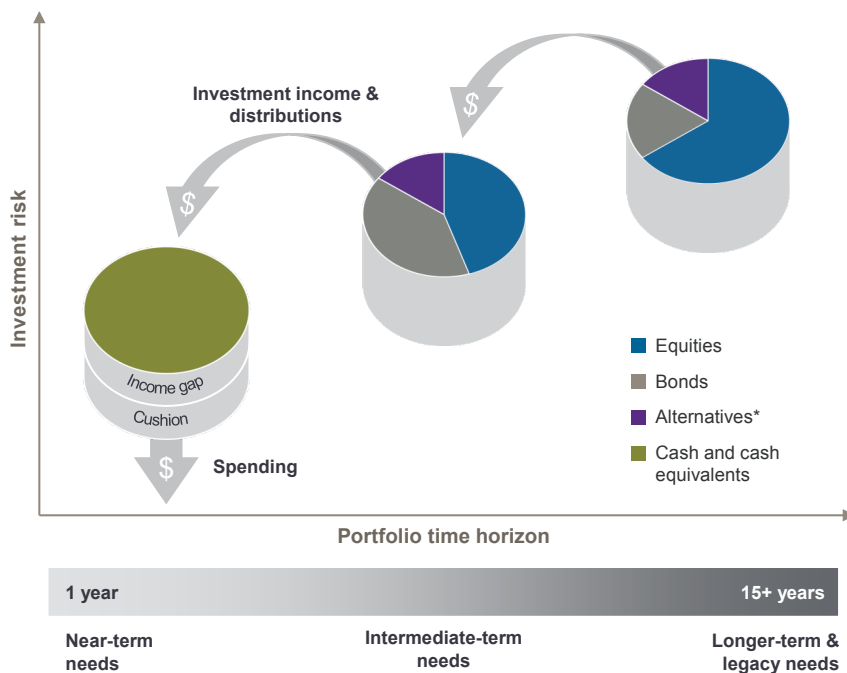
### Bucket #2 (3-5 Years)

Whereas Bucket #1 is all about safety and liquidity, Bucket #2 aims to generate more income and possibly some principal growth. The money in Bucket #2 will include investments in high quality, yet low-yielding securities, that can weather almost all equity-market shocks during the midterm time horizon and provide financial security and reliable income.

### Bucket #3 (5 Years & Beyond)

Bucket #3 is the growth engine of the portfolio and is dominated by equity funds. Historically, equities have generated the highest passive returns out of any asset class. Bucket #3's long-time horizon and your diversified portfolio can withstand the market gyrations. The longer your time horizon, the more likely this bucket will generate wealth.

## Structuring a Portfolio in Retirement - The Bucket Strategy



#### TIME-BASED SEGMENTATION

Aligning your time horizon with an investment approach may help you be more comfortable with maintaining diversified portfolio allocations in retirement.

For the near-term portfolio, consider maintaining:

- Funds to cover 1-3 years worth of the gap between your income and spending needs
- A cushion for unexpected expenses

For illustrative purposes only. Source: J.P. Morgan Asset Management. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to stock market risk, meaning that stock prices in general may decline over short or extended periods of time. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They are not tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

\*Equity, fixed income and cash are considered traditional asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.

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# Spending in Retirement

Consider everything from groceries to gas to the heating bill. If you are not planning on relocating in retirement, you likely have a good idea of what those expenses look like already. A common practice is to plan to spend 70-90% of your current pre-retirement spending level. This method is a good start, but your retirement spending is based on your retirement income and your retirement goals. Listed below are common retirement non-discretionary and discretionary expenses.

## Non-Discretionary Expenses:

### Living Expenses

Living expenses include mortgage, groceries, car maintenance, utilities, insurance, and yard upkeep.

### Taxes

While your tax bill may decrease in retirement, you may still be taxed on Social Security and any extra income that can be offset by charitable donations.

- Optimize saving vehicles by opening tax-advantaged accounts 401(K), IRAs, HSAs and maximizing the contribution limits.
- Capital Management can work with your accountant to manage your tax picture throughout retirement.

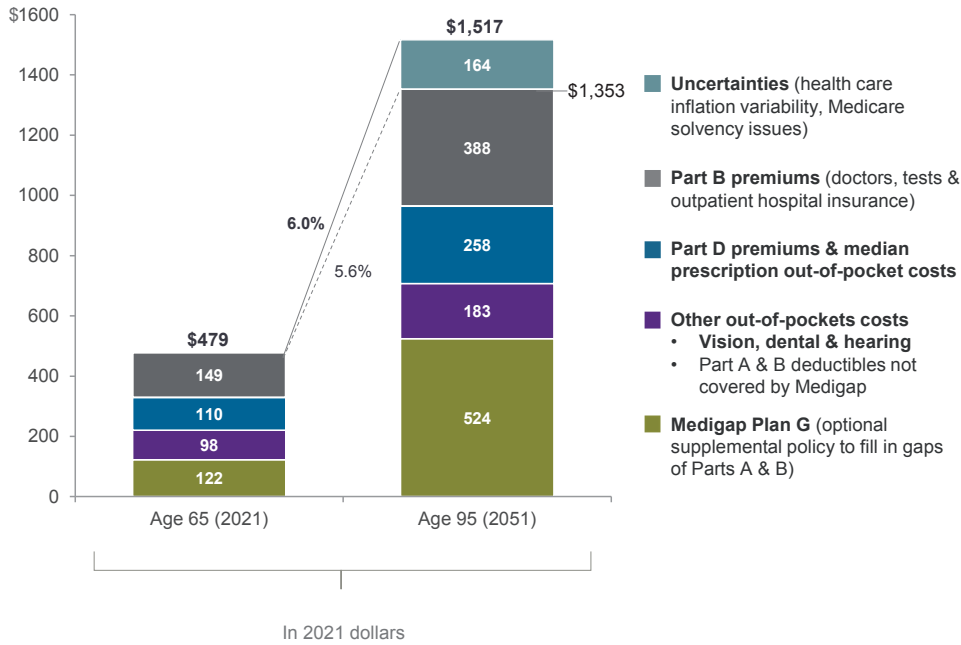
### Health Insurance

Health insurance is usually the second biggest expense in retirement and has increased at twice the rate of inflation. Today, it is estimated that you need at least \$295,000 invested at a 5% annual rate of return in order to cover the rest of your retirement Medicare expenses in your life (not including long-term care). This number is a good rule of thumb, but you may have to adjust your investments depending on your circumstances.



# Rising Health Care Costs in Retirement

**Original Medicare costs in retirement (in 2021 dollars)**  
Monthly amount per person



## A GROWING CONCERN

Annual expenses per person in 2021 are \$5,740.

Given variation in health care cost inflation from year to year, it may be prudent to assume an annual health care inflation rate of 6.0%, which may require growth as well as current income from your portfolio in retirement.

Estimated future value total median monthly cost at age 85 is \$2,747. Today's dollar calculation used a 2% discount rate to account for overall inflation. Medigap premiums typically increase with age, in addition to annual inflation, except for the following states: AR, CT, MA, ME, MN, NY, VT, WA. For options available in other states, contact the State Health Insurance Assistance Program (SHIP) <https://www.shiptacenter.org/>. Plan G premium is nationwide average for non-smokers. If Plan G is not available, analysis includes the most comprehensive plan available.

Source: HealthView Services proprietary data file received January 2021, used by permission. 2019 Consumer Expenditure Survey, latest available data as of December 31, 2020, J.P. Morgan analysis.

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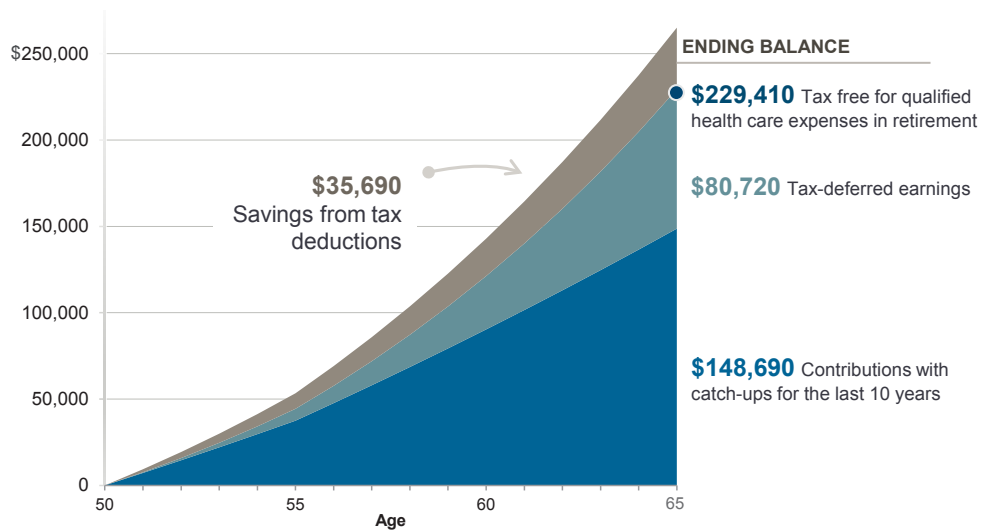
## Health Savings Account:

A Health Savings Account (HSA) is a tax-advantaged account created for or by individuals covered under high-deductible health plans (HDHPs) to save for qualified medical expenses. Contributions are made into the account by the individual or their employer and are limited to a maximum amount each year. The contributions are invested over time and can be used to pay for qualified medical expenses, such as medical, dental, and vision care, as well as prescription drugs.

## Maximizing an HSA for Health Care Expenses in Retirement

### Health Savings Account (HSA) savings are triple tax advantaged<sup>1</sup>

Maximum family contribution with catch-ups, 5.75% return and 24% marginal tax rate



#### MAKE THE MOST OF IT

If you are enrolled in a qualified high-deductible health plan and are eligible to contribute to a Health Savings Account, be sure to open and fund your HSA.

Investing your HSA contributions for the long term and paying for current health care expenses out of income or short-term savings can provide significant tax-free funds for health care expenses in retirement.

<sup>1</sup>Must have a qualifying high-deductible health plan to make contributions. Funds in the HSA may be withdrawn tax free for qualified medical expenses unless a credit or deduction for medical expenses is claimed. After age 65 funds also may be withdrawn for any reason and taxed as ordinary income without penalty. Some health insurance premiums may be qualified expenses such as COBRA coverage, coverage while receiving state or federal unemployment compensation, Medicare Part B and D premiums and qualified long-term care (LTC) insurance premiums up to certain limits, but excludes Medigap/Medicare supplement policies and most hybrid products that combine LTC with annuities and life insurance. See IRS Publications 969 and 502. This is not intended to be individual tax advice; consult your tax professional.

The above example is for illustrative purposes only and not indicative of any investment. Does not include account fees. Present value of illustrated HSA after 15 years is \$170,452. Estimated savings from tax deductions at a 37% marginal rate are \$55,016. Assumes cash or income used for health care expenses is not withdrawn from an account with a tax liability. The example assumes the HSA is fully invested; if \$2,000 was held in a cash account, the illustrated cumulative HSA account value would be \$224,780. 2021 family contribution limit is \$7,200 adjusted for inflation of 2.0% for 30 years with catch-up contributions of \$1,000 per person (adjusted for inflation) starting at age 55 in 2026. Individual 2021 contribution limit is \$3,600. \$229,406 is enough to fund about 13 years of projected average qualified Medicare-related health care expenses for a couple.

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## Discretionary Expenses:

### Travel

Many people look forward to traveling during retirement. This could include visiting the grandkids or more elaborate trips overseas.

### Hobbies

Retirement is a great time to rekindle old hobbies or pick up new ones. Luxuries: Whether you enjoy fine wines or fine art, you will need to factor non-essential purchases into your expenses.

### Children and Grandchildren

For many, this last category includes aspects of all the others. Your family could require travel, luxury purchases, and be your favorite hobby all at once. If you want to make your family the focus of your retirement, make sure you have a good budget and investments to support it.

### Charitable Donations

You may be interested in giving back to your favorite charities while enjoying the tax breaks. Cash and checkbook giving are some of the most common ways to give, but there are alternative assets to consider giving like stocks and bonds that you have held for more than 1 year. You can also donate more complex, non-publicly traded assets, like private or restricted company stock, real estate, and shares of privately owned businesses.

Donating long-term appreciated assets is a smart charitable planning strategy because you are entitled to the full fair market value tax deduction at the time of your gift and you may be able to eliminate capital gains taxes for the charity when you give them directly.

Make sure the charity is listed with the IRS as a 501(c)3 before you donate to ensure your gift is tax deductible. Remember you cannot donate out of your 401(K) and the account must be rolled over into an IRA before the donation can happen.

While giving directly to charitable organizations is common, it is not the only way to donate. There are other philanthropic vehicles with their own benefits and considerations. You can donate to a donor advised fund, create a private foundation, or fund a charitable trust.

Unregistered stock options and unvested restricted stock units are not good donations to charities and cannot be used.

### Family Gifting

Gifting assets to your children and loved ones can be rewarding. Remember that your gifts may be taxable above \$15,000 (\$30,000 if you are married).

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# Appendix A

## KEY FINANCIAL DATA 2021



# KEY FINANCIAL DATA

# 2021

The Capital Management Corporation  
Registered Investment Advisor

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804-270-4000  
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www.cmcva.com

2021 Tax Rate Schedule				
Taxable income (\$)	Base amount of tax (\$)	Plus	Marginal tax rate	Of the amount over (\$)
0 to 9,950		+	10.0	
9,951 to 40,525	995.00	+	12.0	9,950.00
40,526 to 86,375	4,664.00	+	22.0	40,525.00
86,376 to 164,925	14,751.00	+	24.0	86,375.00
164,926 to 209,425	33,603.00	+	32.0	164,925.00
209,426 to 523,600	47,843.00	+	35.0	209,425.00
Over 523,600	157,804.25	+	37.0	523,600.00
Married filing jointly and surviving spouses				
0 to 19,900		+	10.0	
19,901 to 81,050	1,990.00	+	12.0	19,900.00
81,051 to 172,750	9,328.00	+	22.0	81,050.00
172,751 to 329,850	29,502.00	+	24.0	172,750.00
329,851 to 418,850	67,206.00	+	32.0	329,850.00
418,851 to 628,300	95,686.00	+	35.0	418,850.00
Over 628,300	168,993.50	+	37.0	628,300.00
Head of household				
0 to 14,200		+	10.0	
14,201 to 54,200	1,420.00	+	12.0	14,200.00
54,201 to 86,350	6,220.00	+	22.0	54,200.00
86,351 to 164,900	13,293.00	+	24.0	86,350.00
164,901 to 209,400	32,145.00	+	32.0	164,900.00
209,401 to 523,600	46,385.00	+	35.0	209,400.00
Over 523,600	156,355.00	+	37.0	523,600.00
Married filing separately				
0 to 9,950		+	10.0	
9,951 to 40,525	995.00	+	12.0	9,950.00
40,526 to 86,375	4,664.00	+	22.0	40,525.00
86,376 to 164,925	14,751.00	+	24.0	86,375.00
164,926 to 209,425	33,603.00	+	32.0	164,925.00
209,426 to 314,150	47,843.00	+	35.0	209,425.00
Over 314,150	84,496.75	+	37.0	314,150.00
Estates and trusts				
0 to 2,650		+	10.0	
2,651 to 9,950	265.00	+	24.0	2,650.00
9,951 to 13,050	1,921.00	+	35.0	9,950.00
Over 13,050	3,146.00	+	37.0	13,050.00

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Standard Deductions & Child Tax Credit	Standard deduction
<b>Filing status</b>	
Married, filing jointly and qualifying widow(er)s	\$25,100
Single or married, filing separately	\$12,550
Head of household	\$18,800
Dependent filing own tax return	\$1,100*
Additional deductions for non-itemizers	
Blind or over 65	Add \$1,350
Blind or over 65, unmarried & not a surviving spouse	Add \$1,700
Child Tax Credit	
Credit per child under 17	\$2,000 (\$1,400 refundable)
Income phaseouts begin at AGI of:	\$400,000 joint, \$200,000 all other
Tax Rates on Long-Term Capital Gains and Qualified Dividends	
If taxable income falls below \$40,400 (single/married-filing separately), \$80,800 (joint), \$54,100 (head of household), \$2,700 (estates)	0%
If taxable income falls at or above \$40,400 (single/married-filing separately), \$80,800 (joint), \$54,100 (head of household), \$2,700 (estates)	15%
If income falls at or above \$445,850 (single), \$50,800 (married-filing separately), \$501,600 (joint), \$473,750 (head of household), \$13,250 (estates)	20%
3.8% Tax on Lesser of Net Investment Income or Excess of MAGI Over	
Married, filing jointly	\$250,000
Single	\$200,000
Married, filing separately	\$125,000
Exemption Amounts for Alternative Minimum Tax**	
Married, filing jointly or surviving spouses	\$114,600
Single	\$73,600
Married, filing separately	\$57,300
Estates and trusts	\$25,700
28% tax rate applies to income over:	
Married, filing separately	\$99,950
All others	\$199,900
Exemption amounts phase out at:	
Married, filing jointly or surviving spouses	\$1,047,200
Single and married, filing separately	\$523,600
Estates and trusts	\$85,650



Gift and Estate Tax Exclusions and Credits		
Maximum estate, gift & GST rates		40%
Estate, gift, & GST exclusions		\$11,700,000
Gift tax annual exclusion		\$15,000
Exclusion on gifts to non-citizen spouse		\$159,000

Education Credits, Deductions, and Distributions		
Credit/Deduction/Account	Maximum credit/deduction/distribution	Income phaseouts begin at AGI of:
American Opportunity Tax Credit/Hope	\$2,500 credit	\$160,000 joint \$80,000 all others
Lifetime learning credit	\$2,000 credit	\$119,000 joint \$59,000 all others
Savings bond interest tax-free if used for education	Deduction limited to amount of qualified expenses	\$124,800 joint \$83,200 all others
Coverdell	\$2,000 maximum; not deductible	\$190,000 joint \$95,000 all others
529 plan (K-12)	\$10,000 distribution	None
529 plan (Higher Ed.) †	Distribution limited to amount of qualified expenses	None

Tax Deadlines	
January 15 – 4th installment of the previous year's estimated taxes due	
April 15 – 1st installment of 2021 taxes due	
May 17 † – Tax filing deadline, or request extension to Oct. 15. Last day to file amended return for 2017. Last day to contribute to: Roth or traditional IRA for 2020; HSA for 2020; Keogh or SEP for 2020 (unless tax filing deadline has been extended).	
June 15 – 2nd installment of estimated taxes due	
September 15 – 3rd installment of estimated taxes due	
October 15 – Tax returns due for those who requested an extension. Last day to contribute to SEP or Keogh for 2020 if extension was filed.	
December 31 – Last day to: 1) pay expenses for itemized deductions; 2) complete transactions for capital gains or losses; 3) establish a Keogh plan for 2021; 4) establish and fund a solo 401(k) for 2021; 5) complete 2021 contributions to employer-sponsored 401(k) plans; 6) correct excess contributions to IRAs and qualified plans to avoid penalty.	

\* Greater of \$1,100 or 50% plus the individual's earned income.  
\*\* Indexed for inflation and scheduled to sunset at the end of 2025.  
† \$10,000 lifetime \$29 distribution can be applied to student loan debt.  
‡ Deadline extended as part of COVID-19 relief.

Check with your financial professional for updates.

### Retirement Plan Contribution Limits

Annual compensation used to determine contribution for most plans	\$230,000
Defined-contribution plans, basic limit	\$58,000
Defined-benefit plans, basic limit	\$230,000
401(k), 403(b), 457(b), Roth 401(k) plans elective deferrals	\$19,500
Catch-up provision for individuals 50 and over, 401(k), 403(b), 457(b), Roth 401(k) plans	\$6,500
SIMPLE plans, elective deferral limit	\$13,500
SIMPLE plans, catch-up contribution for individuals 50 and over	\$3,000

### Individual Retirement Accounts

IRA type	Contribution limit	Catch-up at 50+	Income limits
Traditional nondeductible	\$6,000	\$1,000	None
Traditional deductible	\$6,000	\$1,000	If covered by a plan: \$105,000 - \$125,000 joint \$66,000 - \$76,000 single, HOH 0 - \$10,000 married filing separately If one spouse is covered by a plan: \$198,000 - \$208,000 joint \$125,000 - \$140,000 single & HOH 0 - \$10,000 married filing separately
Roth	\$6,000	\$1,000	\$198,000 - \$208,000 joint \$125,000 - \$140,000 single & HOH 0 - \$10,000 married filing separately
Roth conversion			No income limit

### Health Savings Accounts

Annual limit	Maximum deductible contribution	Expense limits (deductibles and co-pays)	Minimum annual deductible
Individuals	\$3,600	\$7,000	\$1,400
Families	\$7,200	\$14,000	\$2,800
Catch-up for 55 and older	\$1,000		

### Deductibility of Long-Term Care Premiums on Qualified Policies

Attained age before close of tax year	Amount of LTC premiums that qualify as medical expenses in 2021
40 or less	\$450
41 to 50	\$850
51 to 60	\$1,690
61 to 70	\$4,520
Over 70	\$5,640

### Medicare Deductibles

Part B deductible	\$203.00
Part A (inpatient services) deductible for first 60 days of hospitalization	\$1,484.00
Part A deductible for days 61-90 of hospitalization	\$371.00/day
Part A deductible for more than 90 days of hospitalization	\$742.00/day

### Social Security

<b>Benefits</b>	Estimated maximum monthly benefit if turning full retirement age (66) in 2021	\$3,148
	Retirement earnings exempt amounts	\$18,960 under FRA \$50,520 during year reach FRA No limit after FRA
<b>Tax on Social Security benefits: Income brackets</b>		
<b>Filing status</b>		<b>Provisional Income*</b>
Married filing jointly	Under \$32,000 \$32,000-\$44,000 Over \$44,000	0 up to 50% up to 85%
Single, head of household, qualifying widow(er), married filing separately and living apart from spouse	Under \$25,000 \$25,000-\$34,000 Over \$34,000	0 up to 50% up to 85%
Married filing separately and living with spouse	Over 0	up to 85%
<b>Tax (FICA)</b>		
SS tax paid on income up to \$142,800		<b>% withheld</b>
Employer pays	6.2%	<b>Maximum tax payable</b>
Employee pays	6.2%	\$8,853.60
Self-employed pays	12.4%	\$8,853.60
		\$17,707.20
<b>Medicare tax</b>		
Employer pays	1.45%	varies per income
Employee pays	1.45% plus 0.9% on income over \$200,000 (single) or \$250,000 (joint)	varies per income
Self-employed pays	2.90% plus 0.9% on income over \$200,000 (single) or \$250,000 (joint)	varies per income

\*Provisional Income = adjusted gross income (not incl. Social Security) + tax-exempt interest + 50% of Social Security benefit

- Timothy C. Cail, CFA, MBA-President & Chief Investment Officer
- Joined CMC in 2006
- 28 years of investment experience
- Beacon Trust Company, Lowe Brockenbrough & Company, Dalkon Shield Claimants Trust
- Mark W. Livesay, CFA-Vice President, Portfolio Manager
- Joined CMC in 2010
- 21 years of investment experience
- Stifel Nicolaus & Company, US Trust Company, The Dreyfus Corporation
- Bradley D. Shiveley, MBA-Vice President
- Joined CMC in 2017
- 13 years of investment experience
- Trust Company of Virginia, Stifel Nicolaus & Company, BB&T Capital Markets

### Medicare Premiums

2019 MAGI single	2019 MAGI joint	Part B Premium	Part D Income adjustment
\$88,000 or less	\$176,000 or less	\$148.50	\$0
88,001-111,000	176,001-222,000	\$207.90	\$12.30
111,001-138,000	222,001-276,000	\$297.00	\$31.80
138,001-165,000	276,001-330,000	\$386.10	\$51.20
165,001-500,000	330,001-750,000	\$475.20	\$70.70
Above 500,000	Above 750,000	\$564.90	\$77.10

### Uniform Lifetime Table (partial)

Age of IRA owner or plan participant	Life expectancy (in years)	Age of IRA owner or plan participant	Life expectancy (in years)
70	27.4	86	14.1
71	26.5	87	13.4
72	25.6	88	12.7
73	24.7	89	12.0
74	23.8	90	11.4
75	22.9	91	10.8
76	22.0	92	10.2
77	21.2	93	9.6
78	20.3	94	9.1
79	19.5	95	8.6
80	18.7	96	8.1
81	17.9	97	7.6
82	17.1	98	7.1
83	16.3	99	6.7
84	15.5	100	6.3
85	14.8	101	5.9

Information contained herein is current as of 3/18/21. It is subject to legislative changes and is not intended to be legal or tax advice. Consult a qualified tax advisor regarding specific circumstances. This material is furnished "as is" without warranty of any kind. Its accuracy and completeness is not guaranteed and all warranties expressed or implied are hereby excluded.

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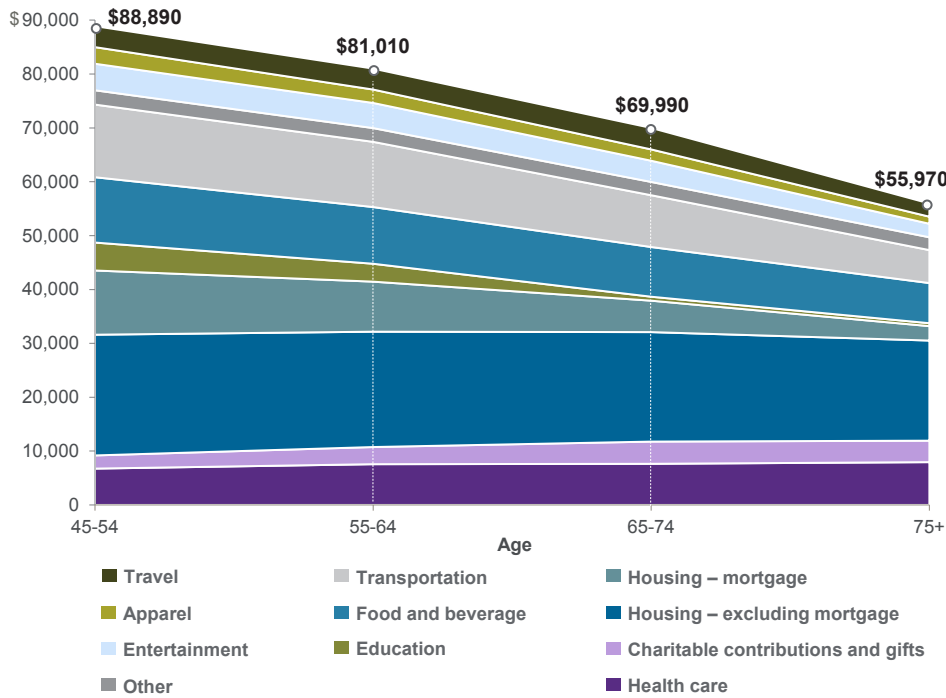
# Appendix B

## SAMPLE BUDGET WORKSHEET



# Changes in Spending

**Average household spending patterns by various age groups**  
For those with a bachelor's degree or higher



**WHAT TO EXPECT**

Household spending peaks at the age of 45, after which spending declines in all categories but health care and charitable contributions and gifts. Housing is the largest expense, even at older ages.

Source: J.P. Morgan Asset Management. Annual estimates based on average consumer expenditures from 2017 to 2019. Consumer Expenditure Surveys (BLS) for each age group excluding pension contributions. Population includes households where a bachelor's degree or higher is achieved by any member. Average household size for age 45-54 is 3.1, age 55-64 is 2.4, age 65-74 is 1.9 and age 75+ is 1.8.



# Household Budget

## Income

Sources	Monthly Income	Notes
Salary	\$	
Bonus	\$	
Business Income	\$	
Other Work	\$	
Second Job	\$	
Dividends	\$	
Interest	\$	
Capital Gains	\$	
Refunds	\$	
IRA Distributions	\$	
Pensions	\$	
Social Security	\$	
Other	\$	
Government	\$	
Annuities	\$	
Insurance	\$	
Rents	\$	
Partnerships	\$	
Farm	\$	
Social	\$	
Gifts	\$	
Other Income	\$	
<b>Total Income</b>	<b>\$</b>	
<b>Total Expenses</b>	<b>\$</b>	
<b>Monthly Excess</b>	<b>\$</b>	

# Household Budget

## Expenses

Category	Expense Type	Monthly Expense	Notes
<b>VACATION</b>			
	Hotels/Timeshares	\$	
	Food	\$	
	Travel	\$	
	Entertainment	\$	
	Excursions	\$	
	Other	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>HOUSING</b>			
	Mortgage (P&I)	\$	
	Insurance	\$	
	Property Tax	\$	
	Repairs	\$	
	Improvements	\$	
	Second Home	\$	
	New Furniture	\$	
	New Electronics	\$	
	Yard	\$	
	Other	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>UTILITIES</b>			
	Cable & Internet	\$	
	Cell Phones	\$	
	Water	\$	
	Gas & Electric	\$	
	Security	\$	
	Gardner/Sprays	\$	
	Other	\$	
	HOA	\$	
	<b>Subtotal</b>	<b>\$</b>	

# Household Budget

## Expenses

Category	Expense Type	Monthly Expense	Notes
<b>CARS</b>			
	Lease/Loans	\$	
	Insurance	\$	
	Property Tax	\$	
	Gas	\$	
	Repairs	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>BANKING</b>			
	General Fees	\$	
	Interest	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>ENTERTAINMENT</b>			
	Clubs	\$	
	Sports & Events	\$	
	Movies	\$	
	Restaurants & Bars	\$	
	Clubs	\$	
	Excursions	\$	
	Other	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>GIFTS</b>			
	Charitable	\$	
	Children	\$	
	Other	\$	
	<b>Subtotal</b>	<b>\$</b>	

# Household Budget

## Expenses

Category	Expense Type	Monthly Expense	Notes
<b>FOOD</b>			
	Groceries	\$	
	Club Stores	\$	
	by Mail	\$	
	Beverages	\$	
	at Work	\$	
	Other	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>HEALTHCARE</b>			
	Co-pays	\$	
	RX	\$	
	Supplies	\$	
	Cosmetic	\$	
	Other	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>APPAREL</b>			
	Work	\$	
	School	\$	
	Leisure	\$	
	Formal	\$	
	Camp	\$	
	Uniform	\$	
	Accessories	\$	
	<b>Subtotal</b>	<b>\$</b>	

# Household Budget

## Expenses

Category	Expense Type	Monthly Expense	Notes
<b>EDUCATION</b>			
	Funding 529s	\$	
	Tuition	\$	
	Bookstore	\$	
	Cafeteria	\$	
	Other Education	\$	
	Other Child Expenses	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>INSURANCE</b>			
	Healthcare	\$	
	Dental/Vision	\$	
	Life	\$	
	Annuities	\$	
	Retirement	\$	
	Umbrella	\$	
	Other	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>TAXES</b>			
	Federal Withholding	\$	
	State Withholding	\$	
	Local	\$	
	Other	\$	
	<b>Subtotal</b>	<b>\$</b>	
<b>GRAND TOTAL EXPENSES</b>		<b>\$</b>	

## OUR APPROACH

### Diverse Strategies to Capitalize on Market Opportunities

Ideas are not enough in the pursuit of successful investments. Our team members share more than a quarter-century commitment to pursuing superior returns, applying their talents to fundamental research and quantitative analysis to bring their insights to market. Guided by these imperatives, we move swiftly and deliberately to capitalize on opportunities having the greatest potential.

## WHAT MAKES US DIFFERENT

### Independence

As a 100% employee-owned boutique investment manager, we are unencumbered by many bureaucratic hurdles that can exist within larger firms.

### Experience

We've been in business for over 50 years. On average, investment committee members have two decades of experience.

### Singular Focus

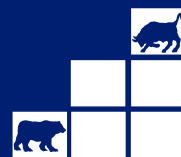
We are dedicated to investing. Everything we do from personnel decisions to systems integration is tailored specifically for client investment results.

### Culture

Our exclusive client base allows us to provide an extremely high level of service. Clients have full access to professionals. Your needs come first.

**Special thanks** also to Tracy Leeper, Teresa Fisher, Joey Opiekun, Mark Livesay and Scott Davila for their diligent work and success on this project and others benefiting our clients and the community.

The Capital Management Corporation  
INVESTMENT COUNSEL



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