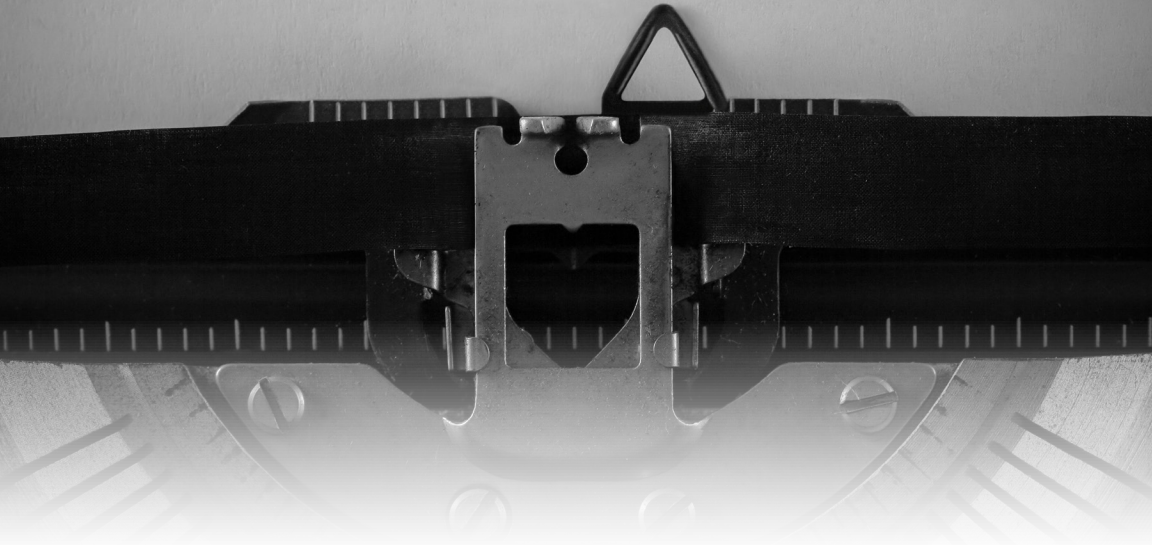


Finding out  
**where** you are,  
**what** you need,  
**when** you need it.

# The **15 Minute** Retirement Planner



# The old rules don't apply.



Once upon a time you worked for the same company the majority of your life. When retirement came along, you received a gold watch, a farewell party and a retirement income stream for life...

What ever happened to "once upon a time"?

Running out of money is a common concern of retirees in studies year after year. It's understandable. It's simply harder than ever to get it **right**.

People work their whole lives to accumulate enough wealth to make sure that they enjoy a comfortable retirement only to find they've come up short.

There are five key issues we face in building a successful retirement:

- Longevity Risk
- Inflation
- Asset Allocation
- Withdrawal Rates
- Health Care

It only makes sense that the number one fear of retirees is running out of money.

There is a process map we need to follow in order to get retirement **right**. Understanding the process and the challenges each step imposes is critical to living retirement on your terms. That's what we're here for.

# The Retirement Map

## Pre-Retiree

|                  |                |              |                     |
|------------------|----------------|--------------|---------------------|
| EXISTING SAVINGS | FUTURE SAVINGS | GROWTH RATES | YEARS TO RETIREMENT |
|------------------|----------------|--------------|---------------------|



## Lifetime Income

|                  |                  |                   |                   |
|------------------|------------------|-------------------|-------------------|
| WITHDRAWAL RATES | ASSET ALLOCATION | MARKET MANAGEMENT | GUARANTEED INCOME |
|------------------|------------------|-------------------|-------------------|



## Retiree

|                 |                    |                    |                            |
|-----------------|--------------------|--------------------|----------------------------|
| LIFE EXPECTANCY | COMBINED RESOURCES | PROJECTED EXPENSES | SOCIAL SECURITY & PENSIONS |
|-----------------|--------------------|--------------------|----------------------------|



## Total Retirement Income Plan

|                        |                   |               |                 |
|------------------------|-------------------|---------------|-----------------|
| FORENSIC FEE ANALYSIS  | ADVANCE & PROTECT | SPEND & LEAVE | LIFETIME INCOME |
| DIVERSIFICATION REVIEW | RISK EXPOSURE     | FINANCIAL MRI | CORE & EXPLORE  |



According to the Bureau of Labor Statistics, only **8%** of retirees are financially independent while **20%** need/want to work part-time past age 65 and **72%** must work and are financially unable to retire at age 65.

Source: <https://thehill.com/business/3882473-money-is-motivating-92-of-americans-to-work-past-retirement/>

# The Age Question

*You may live a lot longer than you think.*

At the turn of the 20th century, the average life expectancy was 47 years. Today, the average American can look forward to about 77 years of life. By 2040, among individuals who reach age 65, average life expectancy is projected to rise from 81 to 85 for men and from 84 to 88 for women, according to the National Center for Health Statistics.

What's behind this trend? Some causes are obvious, such as improved health care. Medical advances, ranging from drugs that control hypertension to hip replacements, allow older Americans to remain active. Healthier lifestyles are also a contributing factor. People are treating their bodies with greater respect. They're giving up smoking, learning to eat right, and exercising regularly. Inevitably, these trends lead to healthier, longer, more productive lives.

So, we are living longer, and that trend continues to be extended. What's your life expectancy?

| Current Age | Life Expectancy | Remainder |
|-------------|-----------------|-----------|
| 59          | 87.0            | 28.0      |
| 60          | 87.1            | 27.1      |
| 61          | 87.2            | 26.2      |
| 62          | 87.4            | 25.4      |
| 63          | 87.5            | 24.5      |
| 64          | 87.7            | 23.7      |
| 65          | 87.9            | 22.9      |
| 66          | 88.0            | 22.0      |
| 67          | 88.2            | 21.2      |
| 68          | 88.4            | 20.4      |
| 69          | 88.6            | 19.6      |
| 70          | 88.8            | 18.8      |
| 71          | 89.0            | 18.0      |
| 72          | 89.2            | 17.2      |
| 73          | 89.4            | 16.4      |
| 74          | 89.6            | 15.6      |
| 75          | 89.8            | 14.8      |
| 76          | 90.1            | 14.1      |
| 77          | 90.3            | 13.3      |
| 78          | 90.6            | 12.6      |
| 79          | 90.9            | 11.9      |
| 80          | 91.2            | 11.2      |
| 81          | 91.5            | 10.5      |
| 82          | 92.9            | 9.9       |
| 83          | 92.3            | 9.3       |
| 84          | 92.7            | 8.7       |
| 85          | 93.1            | 8.1       |
| 86          | 93.6            | 7.6       |
| 87          | 94.1            | 7.1       |
| 88          | 94.6            | 6.6       |
| 89          | 95.1            | 6.1       |
| 90          | 95.7            | 5.7       |
| 91          | 96.3            | 5.3       |
| 92          | 96.9            | 4.9       |
| 93          | 97.6            | 4.6       |
| 94          | 98.3            | 4.3       |
| 95          | 99.0            | 4.0       |
| 96          | 99.7            | 3.7       |
| 97          | 100.4           | 3.4       |



# The Lifestyle Question

*You may need more money than you think.*

Expenses are not dropping as they often did for retirees in prior years, and the rules are changing.

Today, we are active. Health contributes to this but the bottom line is seniors are more active than ever. Travel. Cruises, vacation homes. Retirement is a whole new stage of life today. And regardless of what the number is, the effect of inflation is felt more than ever.

Additionally, expenses such as health care costs and prescription medicines are soaring. Concerns for long term care are shared by all.

It used to be we retired, we got the gold watch, and a pension, or income for life, and went home. Simple. Predictable. Now, we don't get the watch, and are given a 401(k) and told to do what we wish with it. More money than we probably ever had, and making the right or wrong decision means living comfortably or running out of money.

In short, both retirement and medical benefit plans are placing more and more reliance on individual savings and wealth management. The responsibilities of a successful retirement are upon our shoulders, and this is a fundamental shift from prior generations.

Aside from longevity and inflation come the responsibility of understanding our needs, assessing our cash flow and withdrawal plans and making the right decisions about investing our savings in a manner consistent with our needs and risk tolerances.

Not a lot of fun. Getting it right matters.

# Planning:

## CASH REQUIREMENTS

The goal is to retire on your terms, not the markets' (or what the market happens to "provide" you on any given year). First, determine your non-negotiable expenses, such as food, shelter, medical and simple living needs. These expenses must be covered, and non-negotiable, check in the mail kind of income needs to show up every months to meet these needs.

Next, what are the discretionary expenses that define your desires... perhaps these include such things as travel, above and beyond entertainment, gifts to the kids, helping grandchildren for education, or charitable gifts?

Now, let's look at what income we have guaranteed. This typically includes Social Security (such as any government guarantee), or any pension income we have.

Finally, what's the shortfall we will need from our investments? Let's fill in the chart...

Non Discretionary Expenses

\$

Additional Desired Expenses

\$

**Total Expenses at Retirement**

\$

Social Security

\$

Pensions (Predictable, Non-Investment Income)

\$

**Total "Guaranteed" Income**

\$

**Requirements from Investments (Shortfall/Gap)**

\$

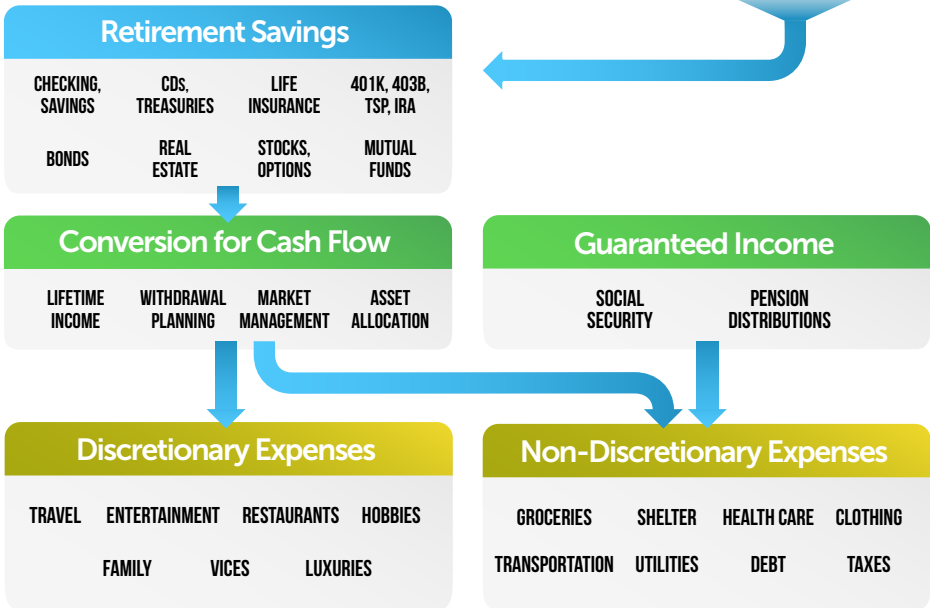
# Planning:

## CASH DISTRIBUTIONS

So, we have identified what we need (discretionary and non discretionary), we know what we have already coming in on a virtual "guaranteed" basis, and we can figure out the shortfall.

Now, how much do we have to address the shortfall?

|   |    |
|---|----|
| ERISA Accounts (401K, IRA, 403B, TSP, etc.) | \$ |
| Cash On Hand (Excluding Emergency Fund)     | \$ |
| Mutual Funds                                | \$ |
| Annuities                                   | \$ |
| <b>Total Investable Retirement Income</b>   | \$ |



|                           |   |                    |   |                              |   |                       |
|---------------------------|---|--------------------|---|------------------------------|---|-----------------------|
| Non-Discretionary Savings | - | Retirement Savings | - | Converted Retirement Savings | = | Non-Discretionary GAP |
| \$                        |   | \$                 |   | \$                           |   | \$                    |



# Planning:

## WITHDRAWALS

Individuals often have unrealistic expectations about how much money they will safely be able to withdraw annually from their portfolio.

A common but incorrect assumption is that if stocks historically returned approximately 10% annualized over long periods of time, then it is safe to withdraw 10%. Or at least 8% per year without ever having to draw down on the principal.

### ***Nothing could be further from the truth!***

While stocks may have averaged 10.08%<sup>1</sup>, two issues remain:

1. The real returns are closer to 6.94% after inflation, and
2. Market volatility.

### **Inflation**

Inflation robs us of purchasing power over time. For example, the person requiring \$50,000 today will need \$92,000 in 20 years, and \$125,000 in 25 years to maintain purchasing power at the current rate of inflation.

### **Market Volatility**

Perhaps the least understood and most critical issue of retirees today. When accumulating money, the average annual return is what is important. When in the distribution phase, the sequence of returns is all that matters. While the markets may average a certain return, any year you withdraw a sum greater than the return, let alone a negative return, you create greater stress on the portfolio to maintain itself, and the impact, not unlike compounding, may be huge.

<sup>1</sup> <https://www.officialdata.org/us/stocks/s-p-500/1926?amount=100&endYear=2022>

# Sequence of Returns

*There's more than one way to withdraw your money.*

Do stocks become less risky the longer you own them? Most advisors say yes. The problem is that someone who is in the financial red zone and plans to retire in five years doesn't have time anymore.

You may be asking "Why don't I have any more time?" It's because if someone has saved enough money to generate their retirement income, they run the risk of ruining that retirement plan by having too many stocks, whose value can decline. Remember, we've gone through two periods just in the last 20 years where stocks have declined by around 50%. This becomes a problem withdrawing each year and not having the time horizon to let those assets recover.

## Case Study

Let's look at a case study focusing on the Accumulation and Distribution Phases.

### Accumulation Phase

- Average Return: 8%
- No Distributions

### Distribution Phase

- Average Return: 8%
- Distributions of 5% of beginning principal value and adjusted for inflation.

In each phase, we have a sequence of returns, then invert them to look at the implication of how the returns effect the outcome.

## ACCUMULATION PHASE

Starting Value: \$100,000  
No Distributions  
Average Return: 8%

| Age | Annual Return | New Value | Annual Return | Year End Value |
|-----|---------------|-----------|---------------|----------------|
| 41  | -12%          | \$87,695  | 29%           | \$129,491      |
| 42  | -21%          | 69,426    | 18%           | 152,281        |
| 43  | -14%          | 59,707    | 25%           | 189,590        |
| 44  | 22%           | 72,984    | -6%           | 178,404        |
| 45  | 10%           | 80,136    | 15%           | 204,272        |
| 46  | 4%            | 83,595    | 8%            | 221,183        |
| 47  | 11%           | 92,707    | 27%           | 281,124        |
| 48  | 3%            | 95,210    | -2%           | 274,939        |
| 49  | -3%           | 92,155    | 15%           | 315,355        |
| 50  | 21%           | 111,507   | 19%           | 375,272        |
| 51  | 17%           | 130,129   | 33%           | 498,737        |
| 52  | 5%            | 137,836   | 11%           | 554,097        |
| 53  | -10%          | 123,597   | -10%          | 499,737        |
| 54  | 11%           | 137,316   | 5%            | 526,284        |
| 55  | 33%           | 182,493   | 17%           | 614,174        |
| 56  | 19%           | 217,167   | 21%           | 743,150        |
| 57  | 15%           | 249,091   | -3%           | 719,305        |
| 58  | -2%           | 243,611   | 3%            | 738,726        |
| 59  | 27%           | 309,626   | 11%           | 819,247        |
| 60  | 8%            | 335,262   | 4%            | 854,602        |
| 61  | 15%           | 383,875   | 10%           | 936,354        |
| 62  | -6%           | 361,226   | 22%           | 1,147,022      |
| 63  | 25%           | 449,727   | -14%          | 986,439        |
| 64  | 18%           | 528,878   | -21%          | 780,941        |
| 65  | 29%           | 684,848   | -12%          | 684,848        |
|     | 8%            | \$684,848 | 8%            | \$684,848      |

## DISTRIBUTION PHASE

Starting Value: \$684,848  
Distributions: 5% of Initial Balance w Inflation  
Average Return: 8%

| AGE | Annual Return | Year End Value | Annual Return | Year End Value |
|-----|---------------|----------------|---------------|----------------|
| 66  | -12%          | \$566,337      | 29%           | \$852,571      |
| 67  | -21%          | 413,086        | 18%           | 967,355        |
| 68  | -14%          | 318,927        | 25%           | 1,168,029      |
| 69  | 22%           | 352,432        | -6%           | 1,061,698      |
| 70  | 10%           | 348,431        | 15%           | 1,177,105      |
| 71  | 4%            | 323,772        | 8%            | 1,234,835      |
| 72  | 11%           | 318,176        | 27%           | 1,528,614      |
| 73  | 3%            | 284,653        | -2%           | 1,452,871      |
| 74  | -3%           | 232,143        | 15%           | 1,623,066      |
| 75  | 21%           | 236,215        | 19%           | 1,886,771      |
| 76  | 17%           | 229,644        | 33%           | 2,461,500      |
| 77  | 5%            | 194,417        | 11%           | 2,687,327      |
| 78  | -10%          | 126,543        | -10%          | 2,375,148      |
| 79  | 11%           | 90,304         | 5%            | 2,450,746      |
| 80  | 33%           | 68,219         | 17%           | 2,808,226      |
| 81  | 19%           | 27,833         | 21%           | 3,344,606      |
| 82  | 15%           | 0              | -3%           | 3,182,338      |
| 83  | -2%           | 0              | 3%            | 3,211,664      |
| 84  | 27%           | 0              | 11%           | 3,503,440      |
| 85  | 8%            | 0              | 4%            | 3,594,592      |
| 86  | 15%           | 0              | 10%           | 3,885,017      |
| 87  | -6%           | 0              | 22%           | 4,685,257      |
| 88  | 25%           | 0              | -14%          | 3,963,710      |
| 89  | 18%           | 0              | -21%          | 3,070,398      |
| 90  | 29%           | 0              | -12%          | 2,622,984      |
|     | 8%            | \$0            | 8%            | \$2,622,984    |

During accumulation, regardless of the sequence of returns, what mattered was the average annual return. Both columns in our accumulation phase resulted in the same number at age 65.

During distribution, where negative results occurred in the early years, we ran out of money at age 81.

On the other hand, inverted, with the average still being 8%, and we met our needs with more than \$2 million at age 90.

That said, depending on the whims of the market, we can "average 8%, take out 5% (w /inflation), and **still** run out of money.

# What is Safe?

Understand that in any given year, volatility, especially negative years, creates a compounded negative pressure on the ability to maintain initial cash requirements. Over time, this pressure may exhaust the portfolio. Requiring a fixed dollar amount against a shrinking principal means an ever increasing rate of return is needed, (\$10,000 on \$200,000 is 5%, but if we lose \$20,000 (i.e.. a 10% drop in the market) and withdraw \$10,000, we have \$170,000. Next year, in order to take out \$10,000, we need almost 6% instead of the initial 5%, and so on.

So, What's a safe withdrawal rate?

Using a Monte Carlo<sup>2</sup> simulator, and assuming various portfolio mixes of stocks/bonds (in this case, 60/40 and 80/20) over a 20 and 30 year period, we can determine the probability of a given portfolio mix successfully providing a specific distribution over a specific time frame.

|                   | 4%  | 5%  | 6%  | 7%  | 8%  |
|-------------------|-----|-----|-----|-----|-----|
| 60/40<br>20 YEARS | 99% | 92% | 75% | 52% | 31% |
| 60/40<br>30 YEARS | 87% | 63% | 38% | 19% | 8%  |
| 80/20<br>20 YEARS | 97% | 89% | 74% | 56% | 38% |
| 80/20<br>30 YEARS | 84% | 65% | 45% | 28% | 16% |

<sup>2</sup> Monte Carlo Simulations is a technique which allows for random sampling of historical stock, bond and cash returns. This statistical model generates ranges of outcomes and allows for the assignment of probabilities for which any given outcome may occur. While the table above uses historical data, it does not reflect actual results. It's sole purpose is to predict the probability of a given occurrence based upon specific criteria selected.

# Creating Guidelines

*Everyone needs to do some fundamental planning.*

A successful retirement does not happen by accident or luck.

You need to develop a personal and financial profile – growth objectives, withdrawal needs, risk tolerance, and lifetime horizons all need to be carefully considered. To improve the likelihood of meeting objectives, smart, and sometimes hard, decisions and trade-offs need to be made.

Running out of money is one of the worst scenarios an individual can face during retirement. As seen, withdrawal rates of 5-6% or more can drastically increase the possibility of this happening. It is vitally important to be realistic about spending, resource planning, asset allocation and return rates.

What retirement income will we want?

What retirement resources do we have?

What percentage should be withdrawn to meet non-discretionary needs?

What percentage should be withdrawn to meet discretionary needs?

**What is our probability of success?**

Without taking risk into account, what asset mix seems appropriate?

| STOCKS                        | BONDS                         |
|-------------------------------|-------------------------------|
| <input type="text" value=""/> | <input type="text" value=""/> |

Are risk reduction tools being utilized to create desired lifetime income?

YES  NO







[BroadcastingExperts.com](http://BroadcastingExperts.com)