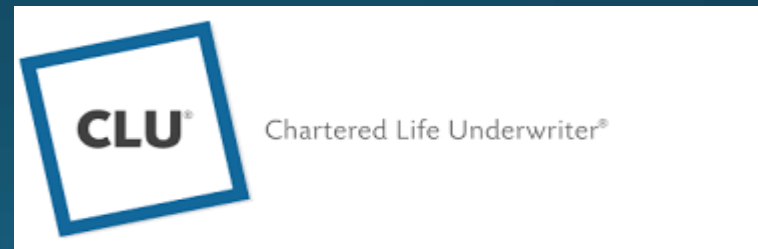


Retirement 101

Uncovering key decisions to a successful retirement

Chris Hardy, CFP[®], EA, ChFC[®], CLU[®], NTPI Fellow[®]

A little about me....







Agenda

- Common Questions
- Overview of Key Considerations
- Planning Opportunities
- Unforeseen Realities
- Q&A

The American Dream - Retirement

- Retirement - Originated in Germany in 1881
- Target age of 70
- Pensions started in the US in mid 1800s
- Target age 65
- Social Security Act (1935)
- Life expectancy of a man at the time was 58
- Was an effort to get younger men into the workforce after the war.

<http://www.theatlantic.com/business/archive/2014/10/how-retirement-was-invented/381802/>

What is your “American Dream?”

Financial Planning/ Retirement Planning/ Fulfillment Planning

- Goal Setting
- Cash Flow Management/ Budgeting
- Tax Planning
- Investment Review and Planning
- Estate Planning
- Risk Management/ Insurance Review
- Education Funding/ Student Loan Repayment
- Retirement Planning and Projections

www.napfa.org/consumerresources

Goal Setting

an **idea** is just a
DREAM until you
write it down...
THEN it's a
goal.

Goal Setting

- Have you defined your “number?”
- What items are on your bucket list?
- Do you have debt you would like to pay off?
- Are there organizations you would like to financially contribute?

Goal Setting

Values Questions:

I want you to imagine that you are financially secure, that you have enough money to take care of your needs, now and in the future.

- *How would you live your life?*
- *What would you do with the money?*
- *Would you change anything?*
- *Don't hold back your dreams.*
- *Describe a life that is complete, that is richly yours.*

Goal Setting

Values Questions:

This time, you visit your doctor who tells you that you have five to ten years left to live. The good part is that you won't ever feel sick. The bad news is that you will have no notice of the moment of your death.

- *What will you do in the time you have remaining to live?*
- *Will you change your life, and how will you do it?*

Goal Setting

Values Questions:

This time, your doctor shocks you with the news that you have only one day left to live. Notice what feelings arise as you confront your very real mortality.

- *What dreams will be left unfulfilled?*
- *What do I wish I had finished or had been?*
- *What do I wish I had done?*
- *What did I miss?*
- *Are there conversations that need to happen?*

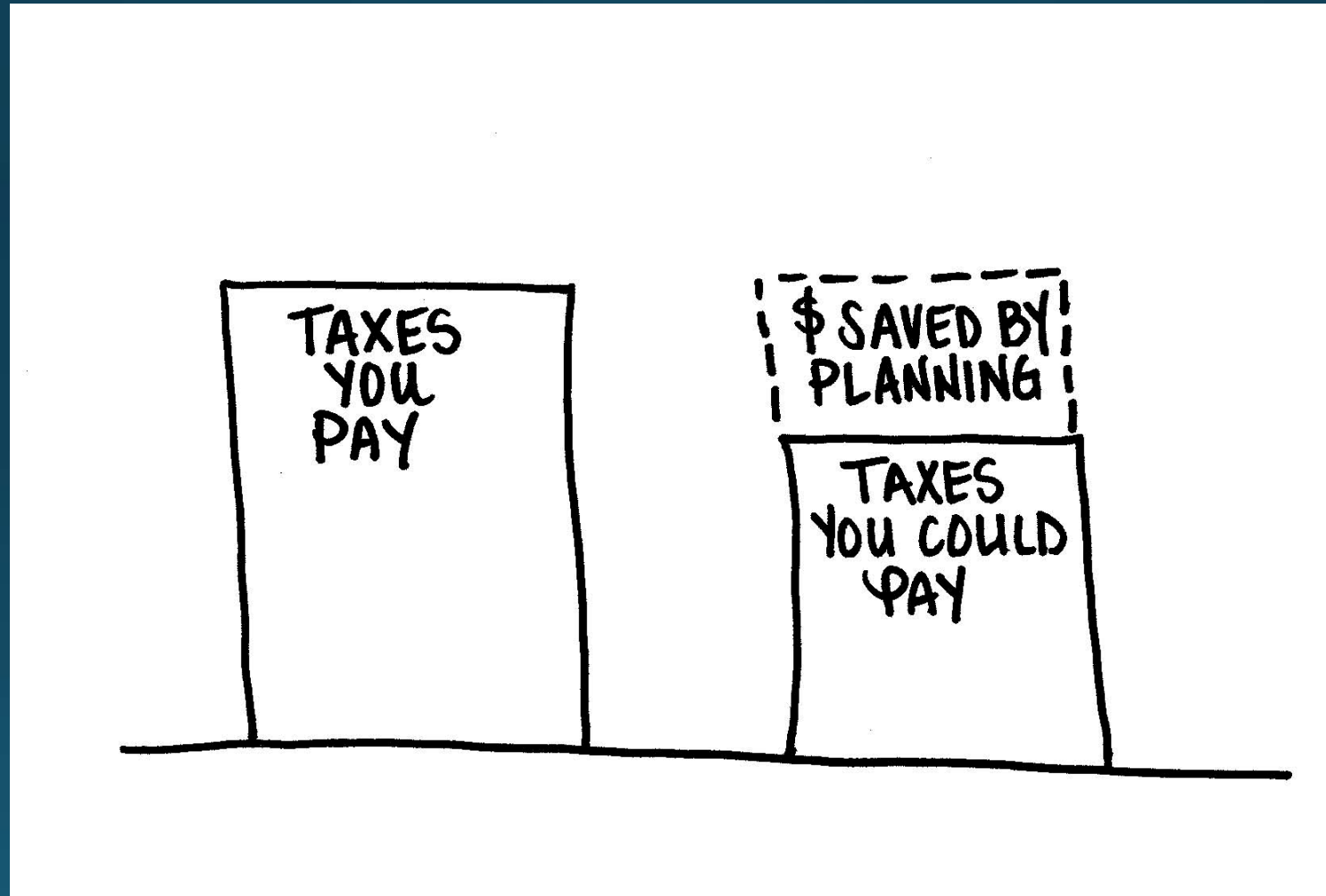
Cash Flow Management/ Budgeting



Cash Flow Management (Budgeting)

- Pre-retirement vs post-retirement date spending habits
- Percentage of pre-retirement income replacement rate vs. Actual expense method
- Mint.com
- YNAB.com
- Vanguard -
<https://personal.vanguard.com/us/insights/retirement/tool/retirement-expense-worksheet>

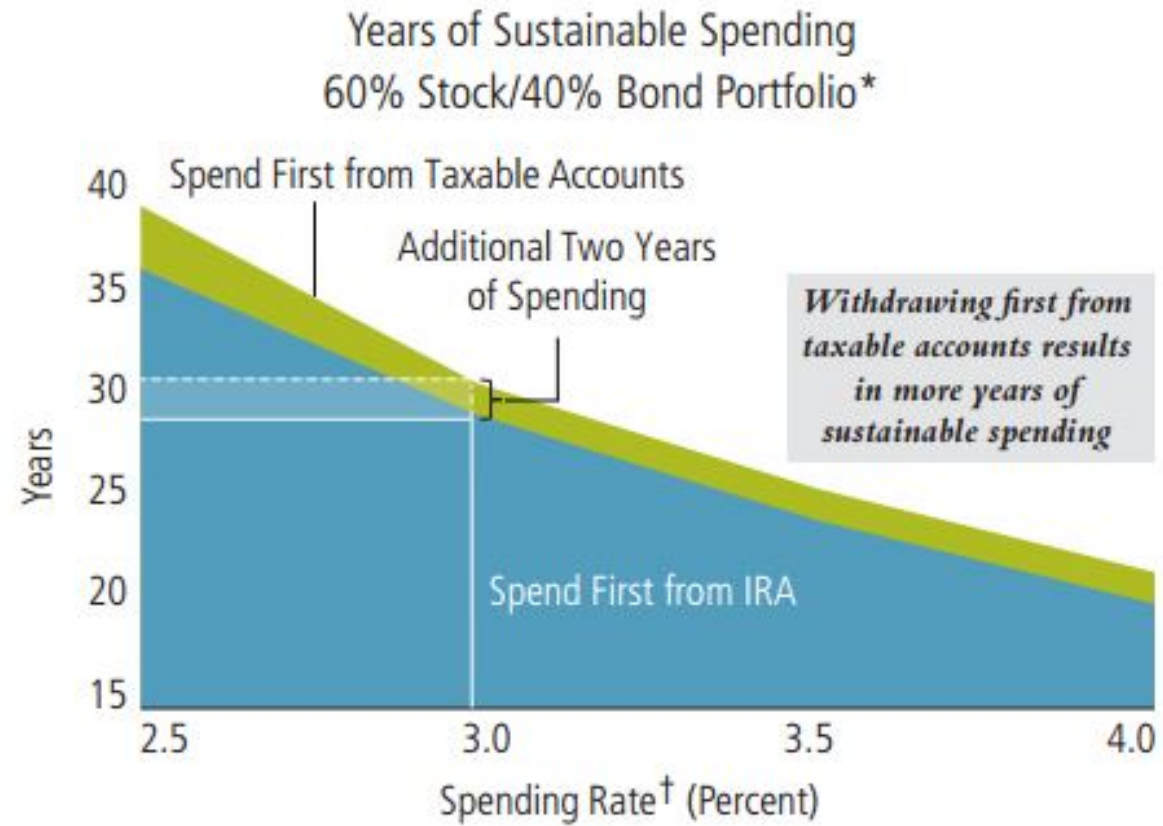
Tax Planning



Tax Planning

“Set and Forget” vs. Dynamic Strategy

Tax Planning



*Sustainable spending is calculated at a 90% level of confidence. Assumes a 65-year-old couple with \$2 million total assets: \$1 million IRA, \$1 million taxable portfolio. The analysis assumes blended effective federal/state tax rates of 35% for income and 20% for capital gains, and includes the impact of required minimum distributions in both scenarios.

†After-tax spending is modeled as percentage of initial assets, grown with inflation. Based on [redacted] estimates of the range of returns for the applicable capital markets over the next 40 years. Data do not represent past performance and are not a promise of actual future results or a range of future results. See Notes on Wealth Forecasting System, page 24, for further details.

Tax Planning

Single

10%	15%	25%	28%	33%	35%	39.6%
\$0-\$9,325	\$9,326-\$37,950	\$37,951-\$91,900	\$91,901-\$191,651	\$191,651-\$416,700	\$416,701-\$418,400	\$418,401 and over

Married Filing Joint

10%	15%	25%	28%	33%	35%	39.6%
\$0-\$18,650	\$18,651-\$75,900	\$75,901-\$153,100	\$153,101-\$233,350	\$233,351-\$416,700	\$416,701-\$470,700	\$470,701 and over

Capital Gains Rates

0%	15%	20%
10, 15% brackets	25, 28, 33, 35% brackets	39.6%

Tax Planning

Investment Review and Planning



Investment Review and Planning

	Investment Manager	Financial Planner	Financial Life Planner
Value	Beating the Market	Comprehensive Financial Plan	Meaningful Financial Life Plan
Target	Bazillion \$	"The Number"	The Life You Want
Life Goals	Not considered	In Background	Integrated

Investment Review and Planning



AFAM
CAPITAL

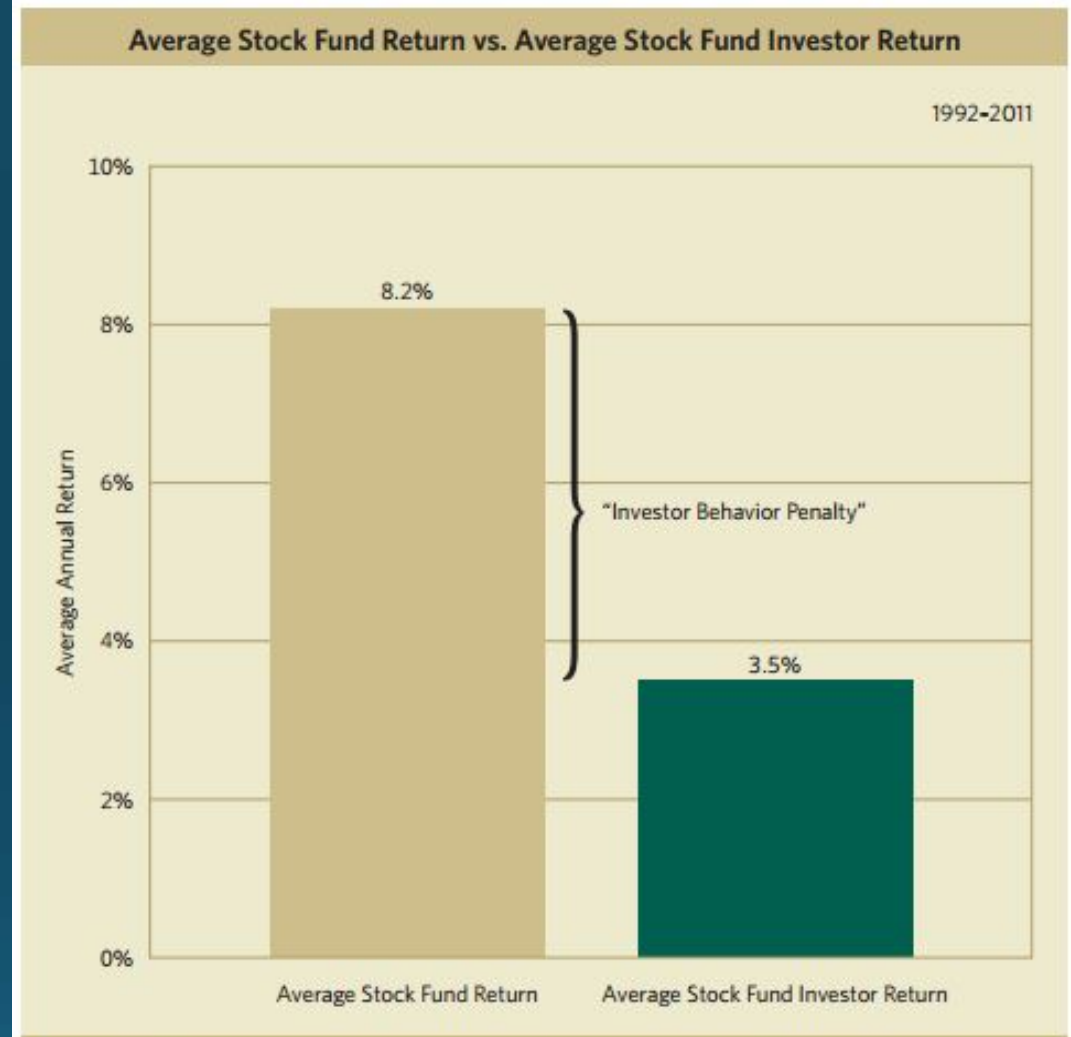
THE PRUDENT SPECULATOR The Cost of Market Timing

2015 Quantitative Analysis of Investor Behavior (QAIB)

	Investor Returns		Index Returns		Differences	
	Equity Funds	Fixed Income Funds	S&P 500	Barclays Aggregate	Stocks	Bonds
30 Year	3.79%	0.72%	11.06%	7.36%	-7.27%	-6.64%
20 Year	5.19%	0.80%	9.85%	6.20%	-4.66%	-5.40%
10 Year	5.26%	0.69%	7.67%	4.71%	-2.41%	-4.02%
5 Year	10.19%	1.21%	15.45%	4.45%	-5.26%	-3.24%
3 Year	14.82%	0.72%	20.41%	2.66%	-5.59%	-1.94%
1 Year	5.50%	1.16%	13.69%	5.97%	-8.19%	-4.81%

Annualized Rates of Return. Source: DALBAR. As of December 2014

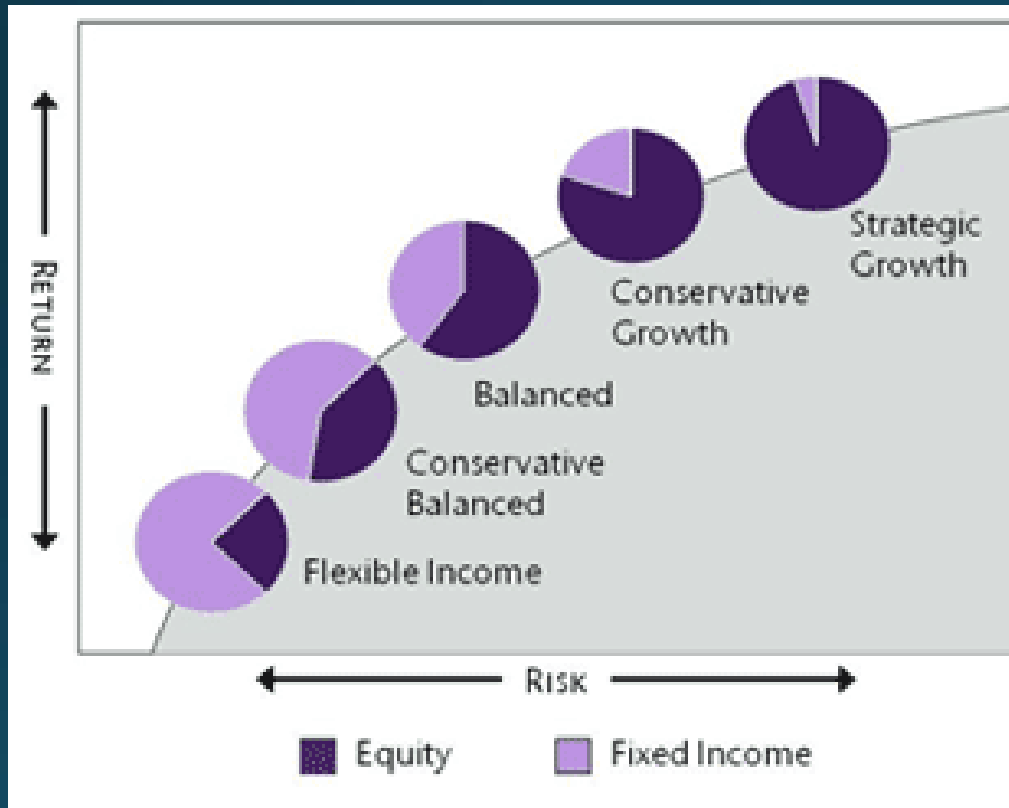
Investment Review and Planning



Source: *Quantitative Analysis of Investor Behavior* by Dalbar, Inc. (March 2012) and Lipper. Dalbar computed the "average stock fund investor return" by using industry cash flow reports from the Investment Company Institute. The "average stock fund return" figures represent the average return for all funds listed in Lipper's U.S. Diversified Equity fund classification model. Dalbar also measured the behavior of a "systematic equity" and "asset allocation" investor. The annualized return for these investor types was 3.2% and 2.1% respectively over the time frame measured. All Dalbar returns were computed using the S&P 500® Index. Returns assume reinvestment of dividends and capital gain distributions. The fact that buy and hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future. The performance shown is not indicative of any particular Davis Fund investment. **Past performance is not a guarantee of future results.**

Investing

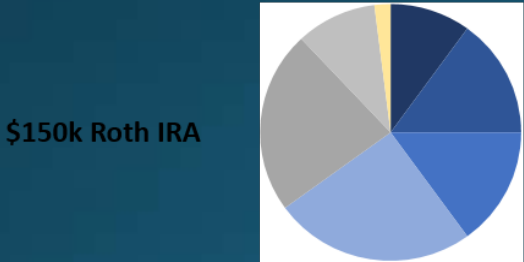
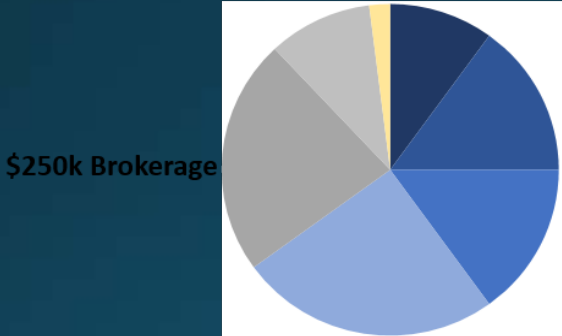
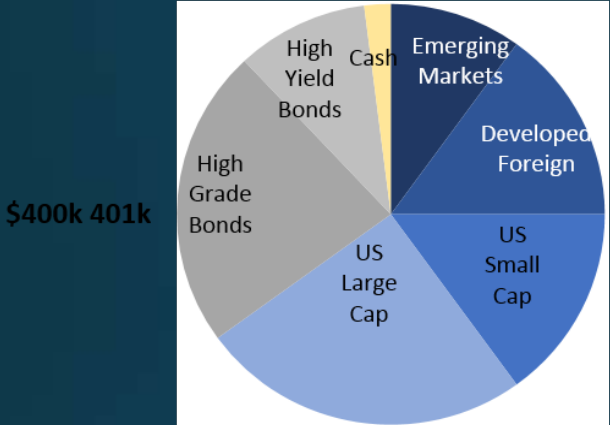
Asset Allocation



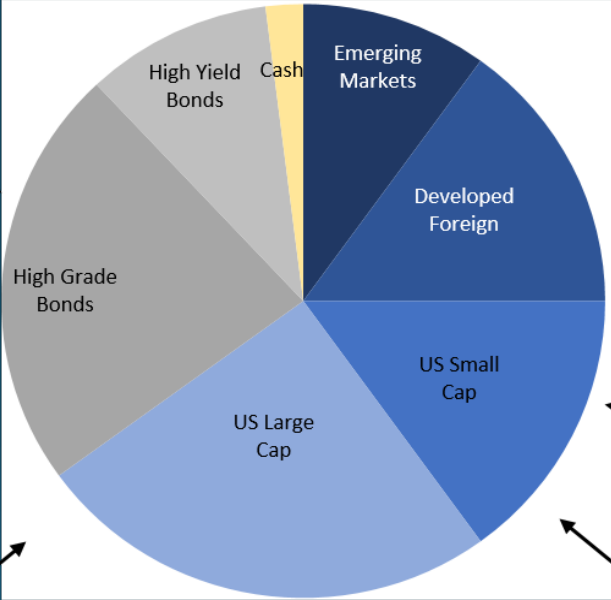
	Benchmark Equity/Fixed
Flexible Income	25/75
Conservative Balanced	40/60
Balanced	60/40
Conservative Growth	80/20
Strategic Growth	100/0

Investing – Asset Location

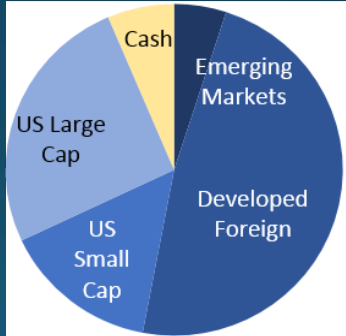
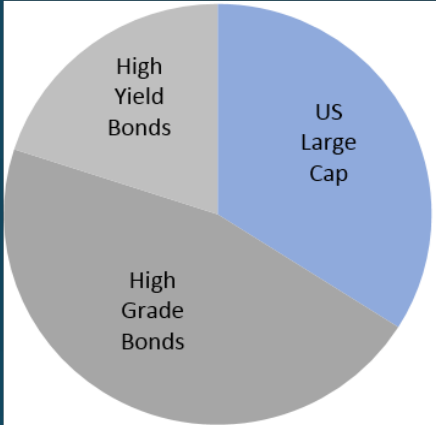
Inefficient Asset Location



Intended Portfolio Allocation



Efficient Asset Location



Investing Mistakes

1. Overconfidence
2. Following the Herd: Euphoria & Pessimism Are Contagious and Usually Wrong
3. Timing the Market
4. Assuming You Control More than You Have
5. Unbalanced Asset Allocation Causing Too Much Risk in Portfolio
6. Inefficient asset location causing unnecessary taxes
7. Paying Too Much in Fees
8. Trusting Stockbrokers

Estate Planning



Estate Planning – Key Documents

1. Durable Power of Attorney
2. Advanced Medical Directive
3. Will
4. Letter of Instruction
5. Living Trust

Estate Planning

Planning Point - Make sure that any account statements including brokerage accounts, IRAs, life insurance, annuity, etc... all have designated beneficiaries that are in alignment with the Will.

Risk Management/ Insurance Review

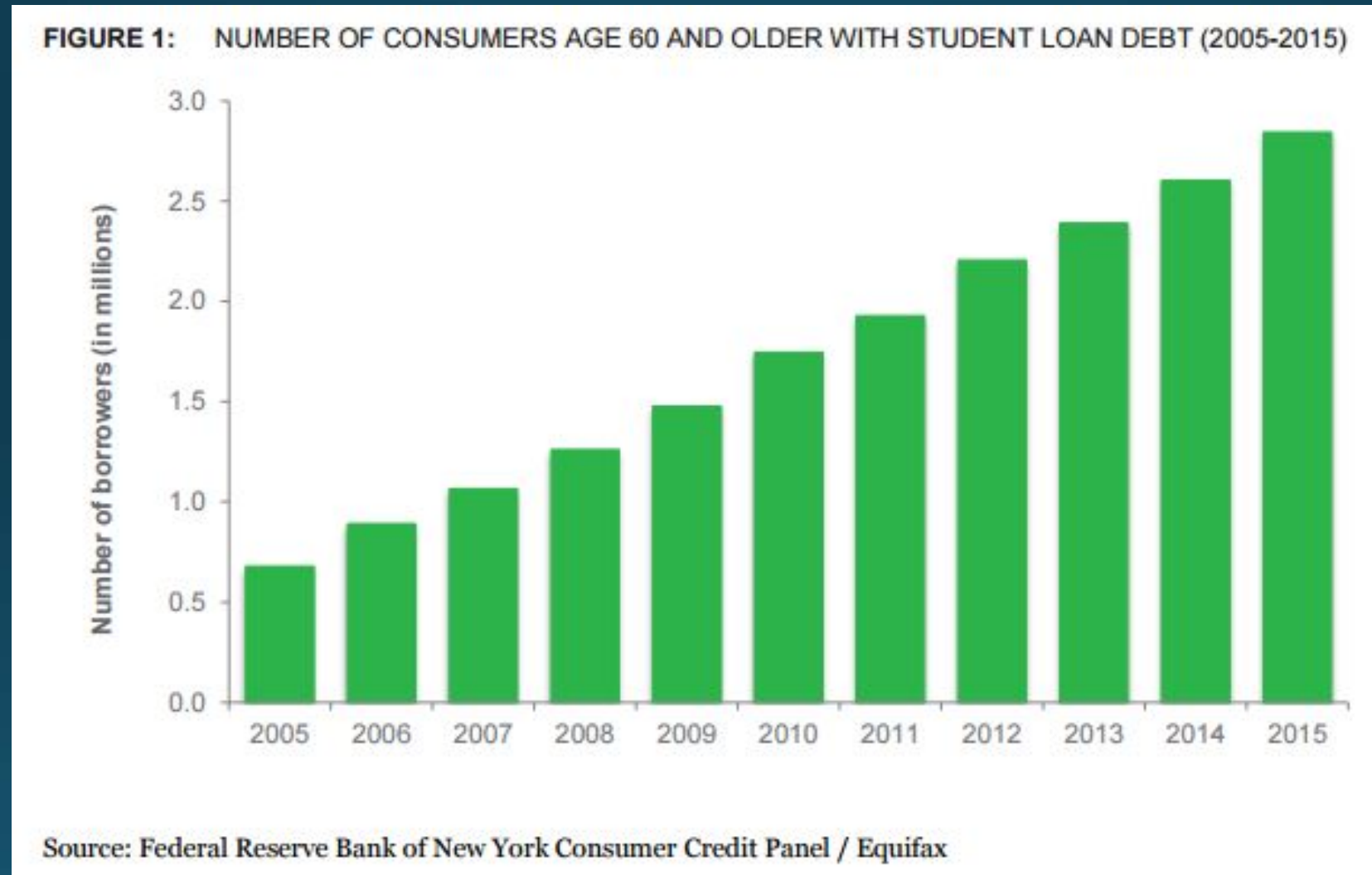


Risk Management & Insurance Review

- Property & Casualty
 - Auto
 - Home
 - Personal Umbrella
- Life Insurance
 - Through Employer
 - Outside Carrier
- Long Term Care
- Supplemental

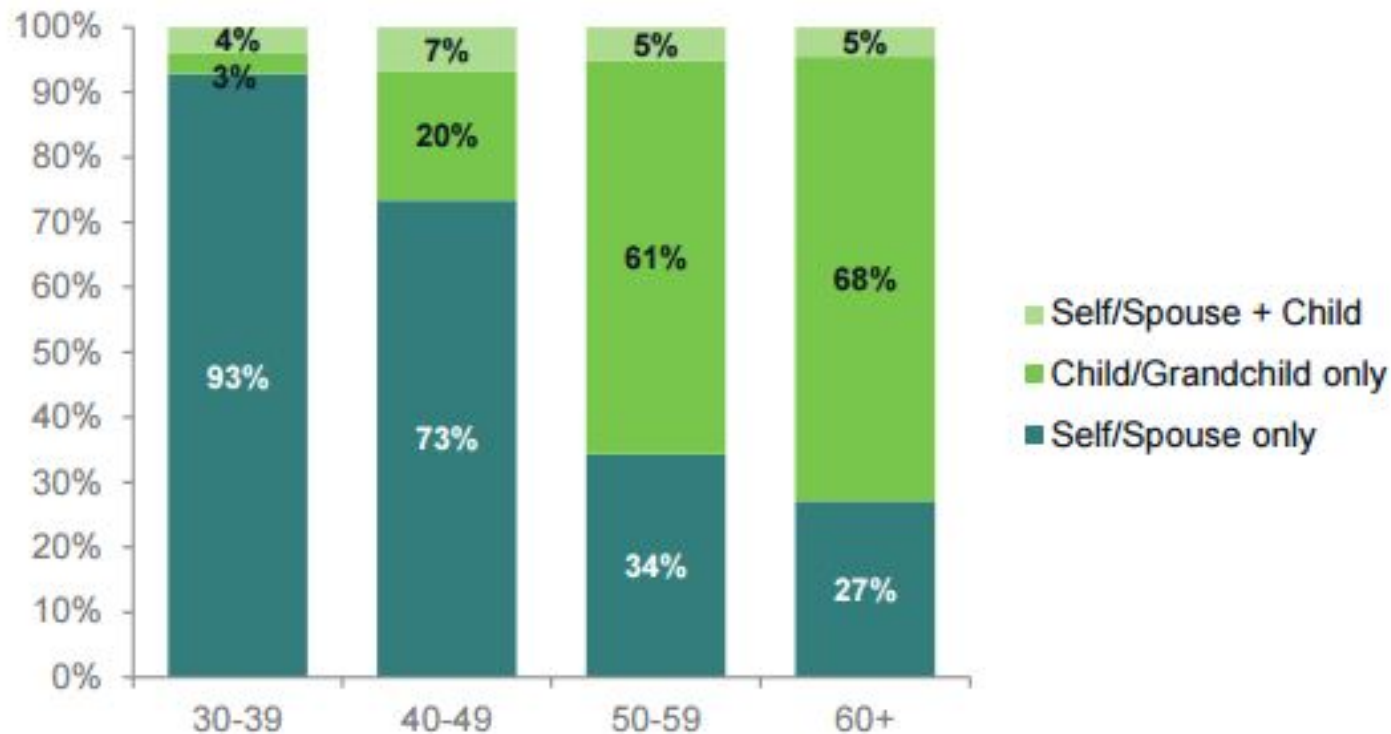
Review for amount of coverage, strength of carrier, additional risks

Education Funding/ Student Loan Repayment



Education Funding/ Student Loan Repayment

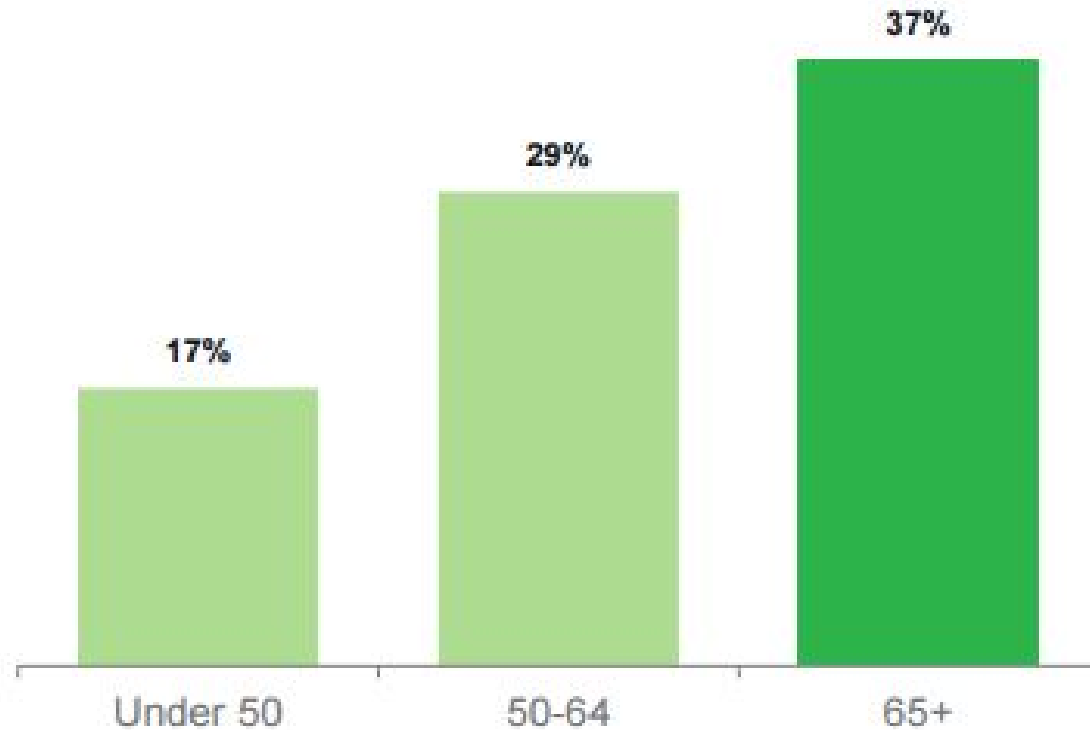
FIGURE 3: BENEFICIARIES OF STUDENT LOAN DEBT OWED BY CONSUMERS BY AGE GROUP (2014)



Source: Federal Reserve Board Survey of Survey of Household Economics and Decisionmaking 2014.

Education Funding/ Student Loan Repayment

FIGURE 4: SHARE OF FEDERAL STUDENT LOAN BORROWERS IN DEFAULT BY AGE GROUP (2015)



Source: Government Accountability Office 2016.

Retirement Planning and Projections



Retirement Planning and Projections

- What do you want to be doing on a daily basis?
- Who do you want to be doing it with?
- Where do you want to be located?

Think of each of these questions in the three phases of retirement...

Retirement Planning

Three Phases

1. Active Phase (Go Go Years):

During this phase, you are still very active, whether you completely retire or go back to work. You want to take time to enjoy the money you put away while working before retirement. You need extra money for travel, etc. Your living cost may be a bit less than when you were working, but not by much.

Retirement Planning

Three Phases

2. Passive Phase (Slow Go Years):

During this phase, you start to slow down. You are probably well enough to continue living on your own but probably not well enough to continue traveling or doing other activities you may have done during the active phase. Your living costs are the cheapest during this phase because you've probably cut back on travel, entertainment, etc.

Retirement Planning

Three Phases

3. Dependent Phase (No Go Years):

Some avoid this phase. Odds are that you will reach a time in your life when you will be dependent on others for help to meet your daily needs, such as bathing, dressing, etc. Your living costs may be the highest in this phase of life, especially if you need to enter an assisted-living facility or nursing home. Either way, your medical costs likely are much higher now than in the active and passive phases of retirement.

Income Sources



Income Sources

1. Personal Savings

- Stocks
- Bonds
- CD's
- Mutual Funds

Income Sources

2. Employer Plans

- 401(k)
- 403(b)
- 457
- SEP
- SIMPLE
- Keogh
- Stock Purchase Plan (SPP)
- Stock Options

Income Sources

3. Real Estate

- Direct ownership of investment properties
 - Residential
 - Commercial
- Traditional Reverse Mortgage
- Home Equity Conversion Mortgage (HECM)

Income Sources

4. Keep Working

- Full time
- Part time
- Self employment
- Small business ownership

Income Sources

5. Social Security

- Early
- Full Retirement Age
- Delayed

Social Security

- More than 8,000 possible combinations for married couple
- Each year delaying benefits you get an 8% increase in benefits
- Longevity Insurance that increases with COLA

Social Security

"As a result of changes to Social Security enacted in 1983, benefits are now expected to be payable in full on a timely basis until 2037, when the trust fund reserves are projected to become exhausted.¹ At the point where the reserves are used up, continuing taxes are expected to be enough to pay 76 percent of scheduled benefits..."

Social Security

"...Thus, the Congress will need to make changes to the scheduled benefits and revenue sources for the program in the future. The Social Security Board of Trustees project that changes equivalent to an immediate reduction in benefits of about 13 percent, or an immediate increase in the combined payroll tax rate from 12.4 percent to 14.4 percent, or some combination of these changes, would be sufficient to allow full payment of the scheduled benefits for the next 75 years."

<https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p111.html>

Social Security

Primary Insurance Amount (PIA)

Bendpoints	Replacement Rate	Counted Income	Maximum Income
1 st Bendpoint	90%	\$856/month	\$856/month (\$10,272/year)
2 nd Bendpoint	32%	\$4,301/month	\$5,157/month (\$61,884/year)
3 rd Bendpoint	15%	\$4,718/month	\$9,875/month (\$118,500/year)

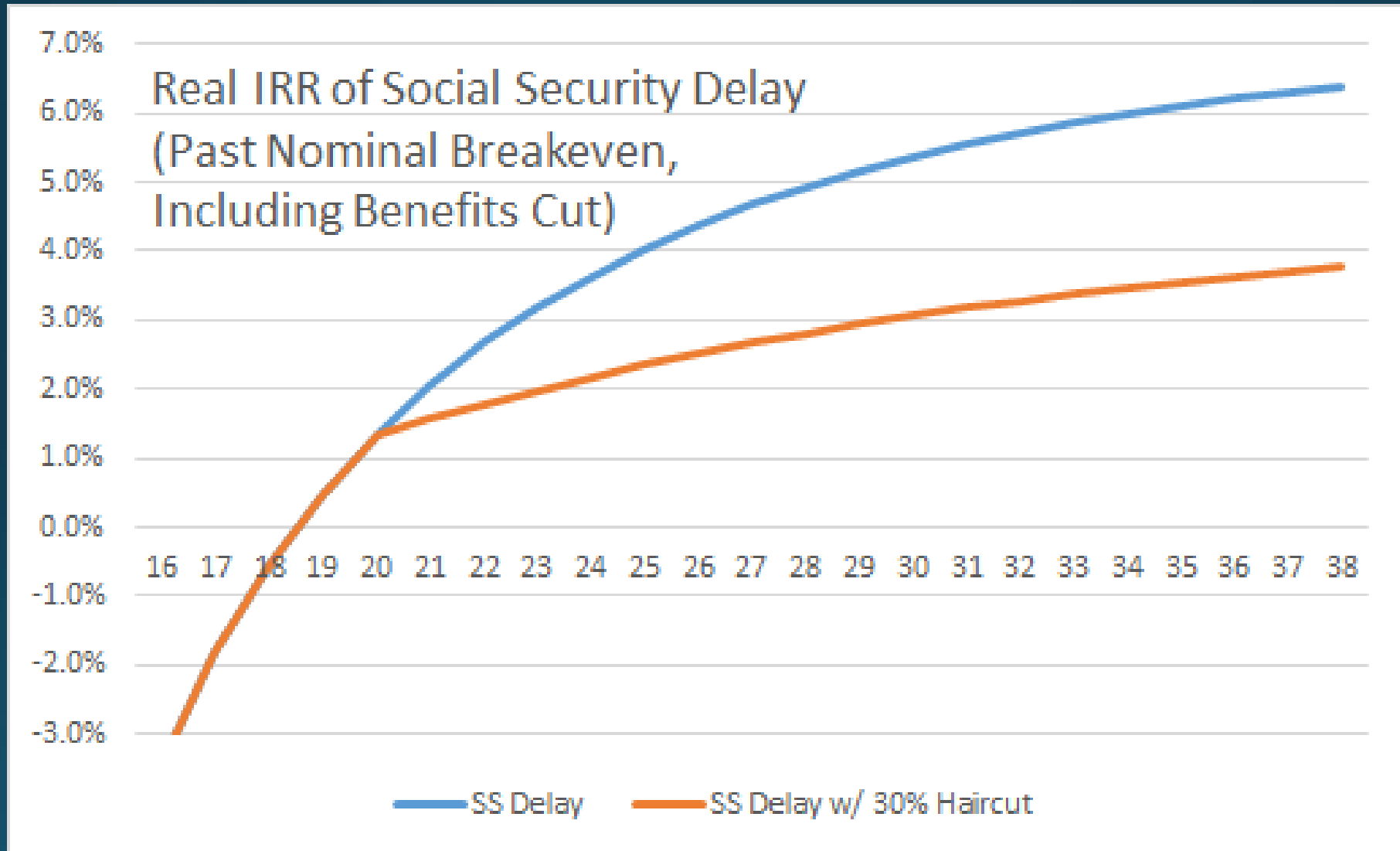
Social Security

Benefits Basics – Early Retirement

- Workers eligible for early benefits before Full Retirement Age (FRA)
- Reduced by $\frac{5}{9}$ of 1% for each month early (up to 36)
 - 6.66%/year
- Reduced by $\frac{5}{12}$ of 1% for each additional month early
 - 5%/year

Year of birth ^a	Normal (or full) retirement age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Social Security



Health Considerations

"The poorest man would not part with health for money, but the richest would gladly part with all their money for health."

~ Charles Caleb Colten

Health Considerations

*According to the latest retiree **health care cost** estimate from **Fidelity Benefits Consulting**, a 65-year-old couple retiring this year will need an average of \$260,000¹ (in today's dollars) to cover medical expenses throughout retirement, up from \$245,000 in 2015.*

https://institutional.fidelity.com/app/item/RD_13569_29195/retiree-health-costs-rise.html

Health Considerations

Medicare has four parts

- 1. Part A – Hospital (instantly qualify upon age 65 and qualified work credits)*
- 2. Part B – Dr. visits and outside of hospital services (voluntary)*
- 3. Part C (Medicare Advantage) – alternative to traditional Medicare (Parts A and B)*
- 4. Part D – Outpatient prescription Drugs*

If you're 10 years away...

- Big ticket items anticipated
- Review estate documents
 - Will
 - Power of Attorney
 - Living Will
 - Healthcare Directive
 - Possibly a Revocable Trust

If you're 5 years away...

- List needs vs wants
- Double check Social Security earnings and resolve any discrepancies
- Decide on plan for starting Social Security
- Run budget projections
- Run tax projections for budget confirmation and for potential Roth conversions

Make a Plan

Q&A

