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FINANCIAL PLANNING ASSOCIATION

OF LOS ANGELES

RETIREMENT PLANNING

Disclaimer: This presentation is for general educational purposes only. Participants should be aware that a financial planning engagement has not been established. Complete data has not been gathered and all alternatives have not been considered. Check with your own advisor, tax preparer and other professionals before making any changes to your situation.

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RETIREMENT IS A TIME OF CHANGE…

Personal

- What to do all day?
- Should I keep working?
- Is this still a good house?
- I heard Florida is nice…

Financial

- Will our savings last?
- What are our income sources?
- What are our expenses now/later?
- How much can we spend?
- How much risk should we take?
- Social Security, Medicare, LTC?
- How should we draw from accounts?

YOU THOUGHT WORKING WAS HARD…
Try Retiring!

- *American College of Financial Services has identified 18 retirement risks:*
- OUTLIVING RESOURCES -- ***Longevity Risk*** | ***Inflation*** | ***Excess Withdrawal Risk***
- INVESTMENTS -- ***Market Risk*** | ***Interest Rate Risk*** | *Liquidity Risk* | ***Sequence Risk***
- AGING -- ***Health Expense Risk*** | *Long Term Care Risk* | *Frailty* | *Elder Abuse*
- WORK -- ***Forced Retirement*** | ***Reemployment Risk****…*
- FAMILY -- ***Unexpected Financial Responsibility Risk*** | *Loss of Spouse Risk*
- OTHER -- *Public Policy Risk* | ***Timing Risk***

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LET’S TEST YOUR KNOWLEDGE…
True or False? Good or Bad Idea?

- Medicare is free for retirees. (True/False)
- Medicare covers Long Term Care costs. (True/False)
- Your Regular 401(k) account is worth $100,000, so you have $100K to spend. (True/False)
- Even if covered by 401(k) or 403(b) plan at work, you can still contribute to your own Traditional IRA account? (True/False)
- You were married for 10 years, got divorced and haven’t remarried. You can claim Social Security benefits based on your ex-spouse. (True/False)
- You may be taxed on *up to* 50%, or *up to* 85% of your Social Security benefits. (True/False)
- If you don’t enroll in parts of Medicare within certain windows, you could face lifelong premium penalties. (True/False)

LONGEVITY RISK: *If you don’t know how long you will last, how long must your savings last?*

- **Generally there’s greater dependence on you saving & your investment choices (*& your behaviors*)… Fewer pensions. Less certainty over Social Security & safety nets… Longer (& *unknown*) life expectancy…**

Average life expectancy at age 65 (*per Social Security Administration 2019 OASDI Trustees Report*)

Year	Women	Men
1990	81.0	80.0
2018	85.6	83.1
2090	89.4	87.3

(*But, also, what if you’re not “average”?....*)

BASIC, GOOD ADVICE AT ANY AGE…

Know your spending & where it will come from!

#2. WANT EXTRA/DISCRETIONARY SPENDING:

(e.g. Travel, Electronics, Gifts, Grandkids, Concerts…)

#1 . NEED BASIC/ESSENTIAL SPENDING:

(e.g. Food, Clothing, Shelter, Prescriptions, Insurance Premiums…)

HELPING SOLVE LONGEVITY (& OTHER) RISK…
Increase % of your income from guaranteed sources!

- Get **life expectancy estimate** personalized for you (*e.g.: https://www.livingto100.com*)!
- Work little longer to improve **Social Security** earnings record & FRA benefit.
- Unless in poor health, **claim at age 70** (*not 62 or 63…!*) to enjoy greater % of *lifetime*, *inflation-protected*, income *(& greater protection for surviving spouse*…)!
- Retiring & claiming Social Security benefits are **two (2) separate decisions**!
- Consider life annuity **payment options** from employer retirement plans *vs.* lump-sum. Consider life insurance **death benefit settlement options** carefully…
- Consider **partial annuitization** with life/joint life annuity to fill any gap between your guaranteed income sources (*e.g. Social Security, pensions, rental income*…) & needs.
- Possibly consider reverse mortgages (HECM) & **tenure option** for example (*i.e. known monthly payments from your home equity as long as last borrower remains in home*).

EXCESS WITHDRAWAL RISK: *Spend too quickly (<u>especially in bad markets</u>) & you may deplete your portfolio…*

- Historically stocks may have earned 8% over time, but this **<u>does not mean</u>** you can safely spend 8% each year if you need the money to last 30+ years in retirement!
- To be conservative, **around 4%** may be appropriate… (or **maybe only 3.5%** if interest rates remain low for long periods…)!
- If you're older (*i.e. shorter retirement period ahead*), OR, if you are willing & able to cut back in bad times, **around 5 - 6%+** may work…
- E.g. If you retire at 65 with retirement account worth $200,000. Can you live on 4% x $200,000 = $8,000 per year + $17,532 from Social Security = $25,532/year?

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FORCED RETIREMENT RISK: *What if my job (or my spouse's…) ends unexpectedly due to health or layoff?*

- Employee Benefit Research Institute's '*2019 Retirement Confidence Survey*':
- **43% retired earlier than planned!**
  - *35% due to health or disabilities*
  - *35% due to downsizing or closures*
  - *13% for caregiving responsibilities*
- "*I'll just work till I die*"… <u>But what if you can't</u>?
- Working little longer generally has much bigger impact if you're behind, than saving aggressively at end. Protecting your sources of income (*i.e. Long Term Disability Insurance*) becomes wise if you can afford it, & if you can qualify.

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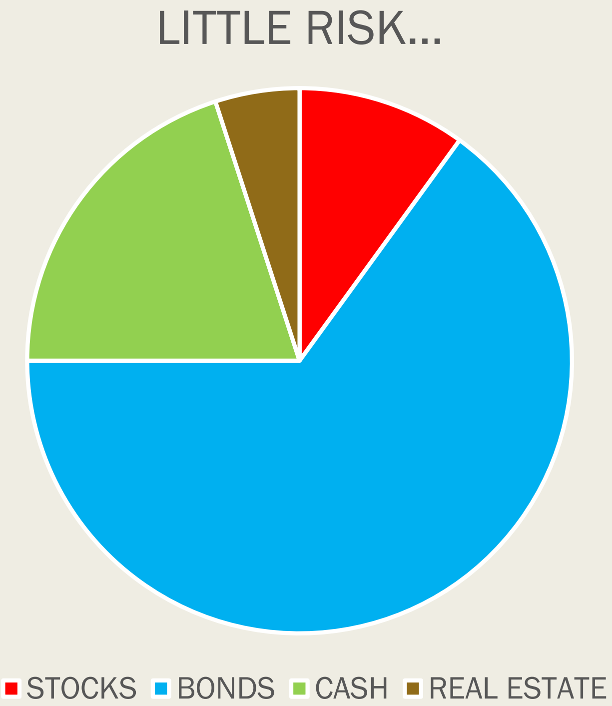
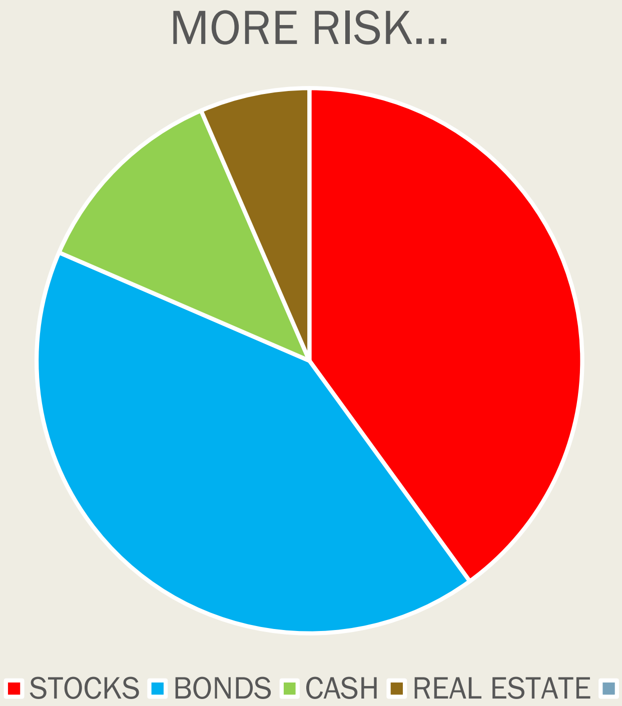
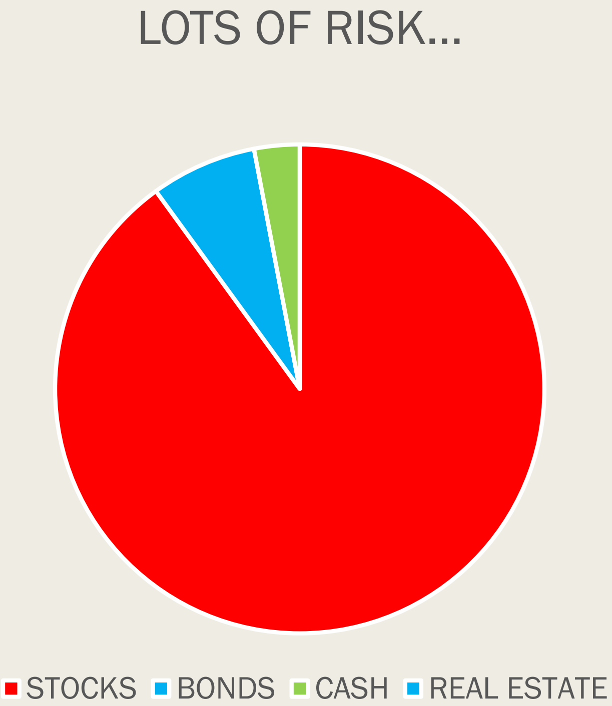
SEQUENCE OF RETURNS RISK: *Negative returns near retirement add <u>lot</u> to risk of portfolio failure…*

- Investment returns move & are unpredictable over shorter time periods…
- The order (or sequence) of how your returns arrive has significant impact on you!
- Even if stocks average 8% per year over long periods, your account *<u>never</u>* earns: 8% this year, 8% next year, 8% year after that… 8% the year you die!
- If you're unlucky & retire into Bear Market in first few years, do you have safe assets (& temperament…) to leave "risk" assets to recover? Are you able & willing to cut spending?
- Recent research suggests building bonds & cash as you approach retirement, & then steadily increasing stock allocation as you age may be best approach…
- If you're lucky & have significant pension covering high % of your basic needs, you are shielded to some extent from this risk!

ASSET ALLOCATION: *This drives **risk vs. reward** combinations (but over long term)…*







PUBLIC POLICY (TAX) RISK:

Should you pay IRS now, or pay later?

- Tax rates may be at generationally low levels, while Federal deficit is ballooning…
- Social Security & Medicare will come under increasing financial strain as Baby Boomers retire.
- *If nothing changes,* on 12/31/2025 personal tax rates from Jobs Cut & Tax Act (2017) will sunset, & tax rates will revert back (*i.e. increase*).
- Highest Federal income tax rate: **37%** (2019) vs. Highest income tax rate ever: **94%** (1944).
- In 1950s, 1960s & 1970s, highest rate dipped but **never below 70%**!

18-Jan-19

Historical Highest Marginal Income Tax Rates

Year	Top Marginal Rate	Year	Top Marginal Rate	Year	Top Marginal Rate
1913	7.00%	1948	82.13%	1983	50.00%
1914	7.00%	1949	82.13%	1984	50.00%
1915	7.00%	1950	84.36%	1985	50.00%
1916	15.00%	1951	91.00%	1986	50.00%
1917	67.00%	1952	92.00%	1987	38.50%
1918	77.00%	1953	92.00%	1988	28.00%
1919	73.00%	1954	91.00%	1989	28.00%
1920	73.00%	1955	91.00%	1990	28.00%
1921	73.00%	1956	91.00%	1991	31.00%
1922	58.00%	1957	91.00%	1992	31.00%
1923	43.50%	1958	91.00%	1993	39.60%
1924	46.00%	1959	91.00%	1994	39.60%
1925	25.00%	1960	91.00%	1995	39.60%
1926	25.00%	1961	91.00%	1996	39.60%
1927	25.00%	1962	91.00%	1997	39.60%
1928	25.00%	1963	91.00%	1998	39.60%
1929	24.00%	1964	77.00%	1999	39.60%
1930	25.00%	1965	70.00%	2000	39.60%
1931	25.00%	1966	70.00%	2001	39.10%
1932	63.00%	1967	70.00%	2002	38.60%
1933	63.00%	1968	75.25%	2003	35.00%
1934	63.00%	1969	77.00%	2004	35.00%
1935	63.00%	1970	71.75%	2005	35.00%
1936	79.00%	1971	70.00%	2006	35.00%
1937	79.00%	1972	70.00%	2007	35.00%
1938	79.00%	1973	70.00%	2008	35.00%
1939	79.00%	1974	70.00%	2009	35.00%
1940	81.10%	1975	70.00%	2010	35.00%
1941	81.00%	1976	70.00%	2011	35.00%
1942	88.00%	1977	70.00%	2012	35.00%
1943	88.00%	1978	70.00%	2013	39.60%
1944	94.00%	1979	70.00%	2014	39.60%
1945	94.00%	1980	70.00%	2015	39.60%
1946	86.45%	1981	69.13%	2016	39.60%
1947	86.45%	1982	50.00%	2017	39.60%
				2018	37.00%

Note: This table contains a number of simplifications and ignores a number of factors, such as a maximum tax on earned income of 50 percent when the top rate was 70 percent and the current increase in rates due to income-related reductions in value of itemized deductions. Perhaps most importantly, it ignores the large increase in percentage of returns that were subject to this top rate.

Sources: Eugene Steuerle, The Urban Institute; Joseph Pechman, Federal Tax Policy; Joint Committee on Taxation, Summary of Conference Agreement on the Jobs and Growth Tax Relief Reconciliation Act of 2003, JCX-54-03, May 22, 2003; IRS Revenue Procedures, various years.

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TAX-DEFERRED vs. TAX-FREE: *Traditional style accounts vs. Roth Style accounts -- Which is better?*

	Traditional-style 401(k), 403(b), IRA, SEP-IRA…	**Roth-style** Roth IRA, Roth 401(k), Roth 403(b)
Contributions	***Pre-tax*** $$ goes in, possible tax deductions now, but owe taxes later!	***Post-tax*** $$$ goes in, no tax deduction now, but no taxes later!
Earnings	Grow Tax-deferred	Grow Tax-free, if you follow rules
Distributions	Taxed at ordinary income tax rates when taken from account	Tax-free, if you follow rules

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ROTH IRA vs. ROTH 401(k)/403(b):
Similar, but not same…

- Roth IRAs share similarities with "Roth-style" accounts like Roth 401(k) or Roth 403(b) accounts: You **contribute post-tax** income (*i.e. You pay tax upfront*!)
- Tax-free withdrawals of **original contributions** <u>for Roth IRAs only</u> **at any age**!
- Tax-free withdrawals of **earnings** <u>if you follow rules</u>:
  - *You're **at least 59 ½** <u>&</u> Roth IRA **open at least 5 years** = "Qualified Distribution"*
- No lifetime **Required Minimum Distributions** (*RMDs*) from Roth IRAs, but there <u>are</u> RMDs from Roth-style accounts (you can always rollover Roth 401(k)/403(b) into Roth IRA to side-step RMDs!).
- Roth IRAs have **different** (i.e. smaller) **contribution limits** than Roth-style accounts.

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STRATEGIES TO MINIMIZE TAXES:
Give IRS their cut, when it suits you best!

- Consider *some* **Roth 401(k), Roth 403(b), &/or Roth IRA contributions** if you're in lower tax brackets (*or want to diversify taxes & buy some* ***"tax insurance"***)!
- Pay any ticking "**time-bomb**" on tax-deferred accounts at lowest possible tax cost (*if rates rise, you're better off with some Roth style accounts*…).
- Consider **series of Partial Roth Conversions in lower-earning years**, or years with unusually high deductions (*e.g. very high medical expenses or charitable contributions (but only if you itemize…*)).
- <u>But remember</u>: **No Roth IRA Recharacterizations** since TCJA (2017) & you should pay taxes due on any Roth conversion from taxable outside money.
- Consider "**filling tax bracket**" by reducing tax-deferred accounts early in retirement (*e.g. for spending or for Partial Roth Conversions*), before Social Security or other income kicks in.
- **SEEK PROFESSIONAL TAX & LEGAL ADVICE BEFORE MAKING <u>ANY</u> CHANGES**!

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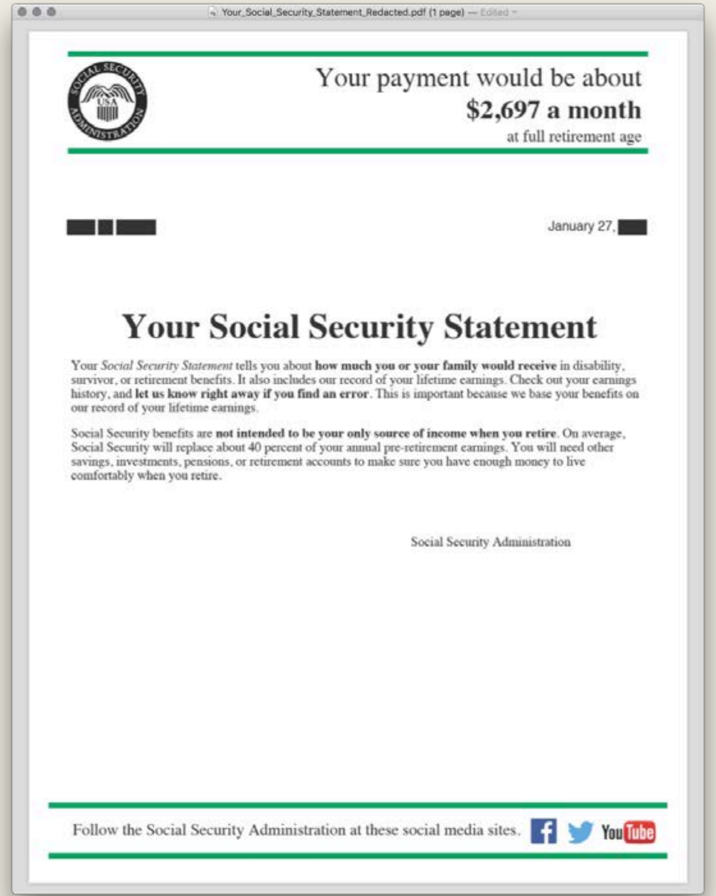
SOCIAL SECURITY: *Planning pitfalls to watch out for….*



Your_Social_Security_Statement_Redacted.pdf (1 page) — Edited

Your payment would be about
$2,697 a month
at full retirement age

[redacted] January 27, [redacted]

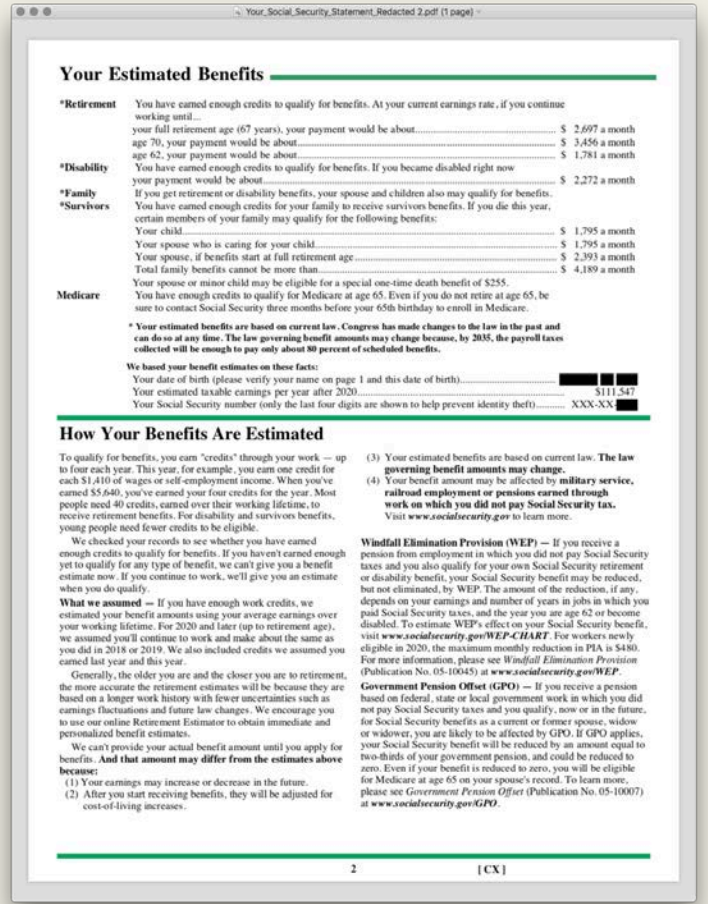
Your Social Security Statement

Your *Social Security Statement* tells you about **how much you or your family would receive** in disability, survivor, or retirement benefits. It also includes our record of your lifetime earnings. Check out your earnings history, and **let us know right away if you find an error**. This is important because we base your benefits on our record of your lifetime earnings.

Social Security benefits are **not intended to be your only source of income when you retire**. On average, Social Security will replace about 40 percent of your annual pre-retirement earnings. You will need other savings, investments, pensions, or retirement accounts to make sure you have enough money to live comfortably when you retire.

Social Security Administration

Follow the Social Security Administration at these social media sites.



Your_Social_Security_Statement_Redacted 2.pdf (1 page)

Your Estimated Benefits

***Retirement** You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until...
your full retirement age (67 years), your payment would be about .... $ 2,697 a month
age 70, your payment would be about .... $ 3,456 a month
age 62, your payment would be about .... $ 1,781 a month

***Disability** You have earned enough credits to qualify for benefits. If you became disabled right now
your payment would be about .... $ 2,272 a month

***Family** If you get retirement or disability benefits, your spouse and children also may qualify for benefits.

***Survivors** You have earned enough credits for your family to receive survivors benefits. If you die this year, certain members of your family may qualify for the following benefits:
Your child .... $ 1,795 a month
Your spouse who is caring for your child .... $ 1,795 a month
Your spouse, if benefits start at full retirement age .... $ 2,393 a month
Total family benefits cannot be more than .... $ 4,189 a month
Your spouse or minor child may be eligible for a special one-time death benefit of $255.

Medicare You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.

*** Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2035, the payroll taxes collected will be enough to pay only about 80 percent of scheduled benefits.**

We based your benefit estimates on these facts:
Your date of birth (please verify your name on page 1 and this date of birth) .... [redacted]
Your estimated taxable earnings per year after 2020 .... $111,547
Your Social Security number (only the last four digits are shown to help prevent identity theft) .... XXX-XX-[redacted]

How Your Benefits Are Estimated

To qualify for benefits, you earn "credits" through your work — up to four each year. This year, for example, you earn one credit for each $1,410 of wages or self-employment income. When you've earned $5,640, you've earned your four credits for the year. Most people need 40 credits, earned over their working lifetime, to receive retirement benefits. For disability and survivors benefits, young people need fewer credits to be eligible.

We checked your records to see whether you have earned enough credits to qualify for benefits. If you haven't earned enough yet to qualify for any type of benefit, we can't give you a benefit estimate now. If you continue to work, we'll give you an estimate when you do qualify.

What we assumed — If you have enough work credits, we estimated your benefit amounts using your average earnings over your working lifetime. For 2020 and later (up to retirement age), we assumed you'll continue to work and make about the same as you did in 2018 or 2019. We also included credits we assumed you earned last year and this year.

Generally, the older you are and the closer you are to retirement, the more accurate the retirement estimates will be because they are based on a longer work history with fewer uncertainties such as earnings fluctuations and future law changes. We encourage you to use our online Retirement Estimator to obtain immediate and personalized benefit estimates.

We can't provide your actual benefit amount until you apply for benefits. **And that amount may differ from the estimates above because:**

(1) Your earnings may increase or decrease in the future.
(2) After you start receiving benefits, they will be adjusted for cost-of-living increases.
(3) Your estimated benefits are based on current law. **The law governing benefit amounts may change.**
(4) Your benefit amount may be affected by **military service, railroad employment or pensions earned through work on which you did not pay Social Security tax.** Visit ***www.socialsecurity.gov*** to learn more.

Windfall Elimination Provision (WEP) — If you receive a pension from employment in which you did not pay Social Security taxes and you also qualify for your own Social Security retirement or disability benefit, your Social Security benefit may be reduced, but not eliminated, by WEP. The amount of the reduction, if any, depends on your earnings and number of years in jobs in which you paid Social Security taxes, and the year you are age 62 or become disabled. To estimate WEP's effect on your Social Security benefit, visit ***www.socialsecurity.gov/WEP-CHART***. For workers newly eligible in 2020, the maximum monthly reduction in PIA is $480. For more information, please see *Windfall Elimination Provision* (Publication No. 05-10045) at ***www.socialsecurity.gov/WEP***.

Government Pension Offset (GPO) — If you receive a pension based on federal, state or local government work in which you did not pay Social Security taxes and you qualify, now or in the future, for Social Security benefits as a current or former spouse, widow or widower, you are likely to be affected by GPO. If GPO applies, your Social Security benefit will be reduced by an amount equal to two-thirds of your government pension, and could be reduced to zero. Even if your benefit is reduced to zero, you will be eligible for Medicare at age 65 on your spouse's record. To learn more, please see *Government Pension Offset* (Publication No. 05-10007) at ***www.socialsecurity.gov/GPO***.

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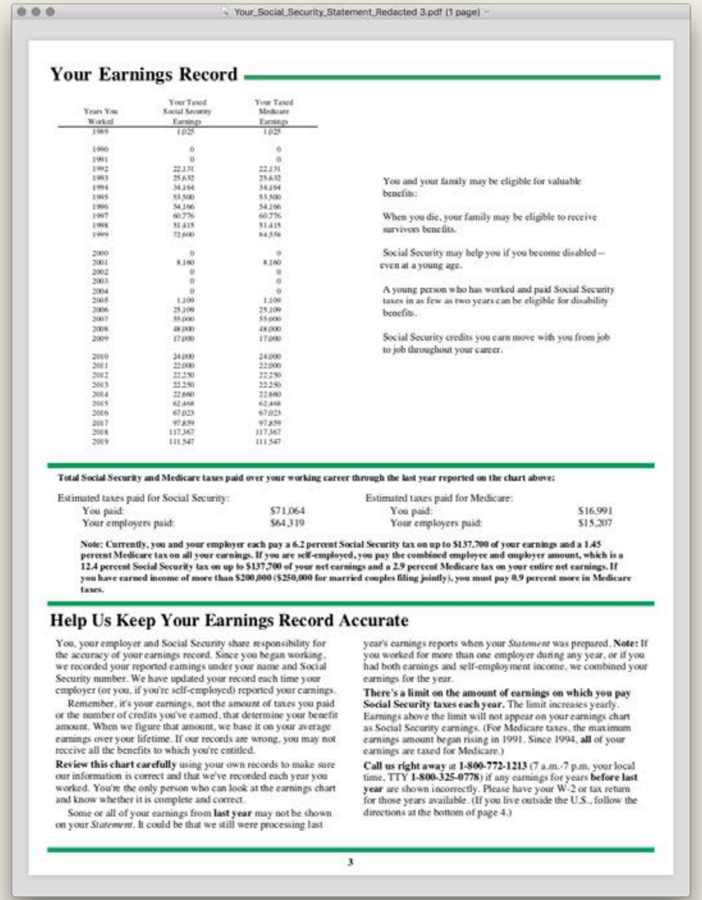

Your_Social_Security_Statement_Redacted 3.pdf (1 page)

Your Earnings Record

Years You Worked	Your Taxed Social Security Earnings	Your Taxed Medicare Earnings
1989	1,025	1,025
1990	0	0
1991	0	0
1992	22,131	22,131
1993	25,632	25,632
1994	34,164	34,164
1995	53,500	53,500
1996	54,166	54,166
1997	60,776	60,776
1998	51,415	51,415
1999	72,600	64,556
2000	0	0
2001	8,160	8,160
2002	0	0
2003	0	0
2004	0	0
2005	1,109	1,109
2006	25,109	25,109
2007	55,000	55,000
2008	48,000	48,000
2009	17,000	17,000
2010	24,000	24,000
2011	22,000	22,000
2012	22,250	22,250
2013	22,250	22,250
2014	22,660	22,660
2015	62,468	62,468
2016	67,023	67,023
2017	97,859	97,859
2018	117,367	117,367
2019	111,547	111,547

You and your family may be eligible for valuable benefits:

When you die, your family may be eligible to receive survivors benefits.

Social Security may help you if you become disabled – even at a young age.

A young person who has worked and paid Social Security taxes in as few as two years can be eligible for disability benefits.

Social Security credits you earn move with you from job to job throughout your career.

Total Social Security and Medicare taxes paid over your working career through the last year reported on the chart above:

Estimated taxes paid for Social Security:
You paid: $71,064
Your employers paid: $64,319

Estimated taxes paid for Medicare:
You paid: $16,991
Your employers paid: $15,207

Note: Currently, you and your employer each pay a 6.2 percent Social Security tax on up to $137,700 of your earnings and a 1.45 percent Medicare tax on all your earnings. If you are self-employed, you pay the combined employee and employer amount, which is a 12.4 percent Social Security tax on up to $137,700 of your net earnings and a 2.9 percent Medicare tax on your entire net earnings. If you have earned income of more than $200,000 ($250,000 for married couples filing jointly), you must pay 0.9 percent more in Medicare taxes.

Help Us Keep Your Earnings Record Accurate

You, your employer and Social Security share responsibility for the accuracy of your earnings record. Since you began working, we recorded your reported earnings under your name and Social Security number. We have updated your record each time your employer (or you, if you're self-employed) reported your earnings.

Remember, it's your earnings, not the amount of taxes you paid or the number of credits you've earned, that determine your benefit amount. When we figure that amount, we base it on your average earnings over your lifetime. If our records are wrong, you may not receive all the benefits to which you're entitled.

Review this chart carefully using your own records to make sure our information is correct and that we've recorded each year you worked. You're the only person who can look at the earnings chart and know whether it is complete and correct.

Some or all of your earnings from **last year** may not be shown on your *Statement*. It could be that we still were processing last year's earnings reports when your *Statement* was prepared. **Note:** If you worked for more than one employer during any year, or if you had both earnings and self-employment income, we combined your earnings for the year.

There's a limit on the amount of earnings on which you pay Social Security taxes each year. The limit increases yearly. Earnings above the limit will not appear on your earnings chart as Social Security earnings. (For Medicare taxes, the maximum earnings amount began rising in 1991. Since 1994, **all** of your earnings are taxed for Medicare.)

Call us right away at **1-800-772-1213** (7 a.m.-7 p.m. your local time, TTY **1-800-325-0778**) if any earnings for years **before last year** are shown incorrectly. Please have your W-2 or tax return for those years available. (If you live outside the U.S., follow the directions at the bottom of page 4.)

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POTENTIAL SOCIAL SECURITY TRAPS…
Social Security traps…

- Social Security statements provide *general or generic estimate of benefits*, assuming you keep earning last reported amount until FRA! This can <u>overstate</u> if that doesn't happen…
- Get an *accurate estimate* based on: (a). What you plan to do; (b). What might happen if things don't go according to plan!
- Government pension? Will you fall under **Government Pension Offset** (GPO)?
  GPO reduces amount of **Social Security**, spouse's, widow's, or widower's benefits by **<u>two-thirds</u> of amount of government pension.** This is <u>*not*</u> reflected on generic SSA estimate!
- **Windfall Elimination Provision** (WEP) is formula used to adjust **Social Security** worker benefits for people who receive "*non-covered pensions*" but qualify for **Social Security** benefits based on other **Social Security**-covered earnings. Will this apply to you?

<u>SECURE ACT</u>: *There have been some big changes!*

- Increase to **age of 72** *(formerly 70 ½…)* for ***Required Minimum Distributions*** (RMDs) from qualified retirement accounts like 401(k)s/403(b)s & tax-deferred IRAs! *(*Applies only to people who would have reached age 70 ½ in 2020 & beyond*).
- **No age limit** for **Traditional IRA contributions**. *If you have <u>earned income</u>*, you can now make Traditional IRA (or Roth IRA) contributions *at any age*!
- **Elimination of "Qualified Stretch"**! New restrictions on beneficiaries ability to distribute inherited retirement assets over their life expectancy… *most* non-spouse beneficiaries must completely drain inherited retirement accounts within 10 years!
  - *New 10 year requirement does <u>not</u> apply to:*
    - Surviving spouse who inherits!
    - Minor children of account holder! *(*only applies while child is below age of majority*!)
    - Any person not more than 10 years younger than the IRA/participant owner!
    - Anyone who is chronically ill or disabled!
- **SEEK PROFESSIONAL TAX & LEGAL ADVICE BEFORE MAKING <u>ANY</u> CHANGES**!

CHARITABLE GIVING: *Writing checks can be less tax efficient…*

- **Qualified Charitable Distribution** (QCD):

  - ***Direct*** *transfer* **from** (most) *tax-deferred* **IRA** accounts to **qualified charity**!

  - IRA custodian cuts check **payable to charity** (*<u>not to you</u>*)!

  - You must still be 70 ½ or older to be eligible to make QCDs!

  - *Up to* $100,000 per year! *(Any amount > your RMD amount does not go towards future year's RMD!)

  - Potentially satisfies *Required Minimum Distribution* (RMD)! *(*Without adding RMD to taxable income)!*

  - Done correctly, charity gets your gift, but you lower your taxable income!

  - QCDs <u>don't</u> require you to itemize on your taxes!

  - Qualified Charity = 501(c)(3), but not Private Foundations, Donor-Advised Funds, etc.

- Remember **401(k)/403(b)** type tax-deferred accounts can be **rolled into Traditional IRAs**
- **SEEK PROFESSIONAL TAX & LEGAL ADVICE BEFORE MAKING <u>ANY</u> CHANGES**!

WHAT IF YOU NEED TO PLAY CATCH-UP?

Work bit longer, Save bit harder, Invest better, & Stay Healthy…

- If you can **walk**, stay **healthy** & stay engaged with friends/community, you can help control your healthcare costs & outcomes!
- **Think now** about what you'd like to do: *Part-time work, Volunteer, Garden, Start Business*…
- Wise **Social Security (or pension) claiming** helps (e.g. increases FRA benefit calculation, increases benefit more with delayed credits, increases % of pre-retirement income replaced with guaranteed source of income (+ COLA), helps surviving spouse…)!
- **Know what you need to spend**! And **monitor** what's going on!
- If you're close to retirement, or just entered it, **working another year or two** will generally do <u>much more</u> for your outlook than saving lot at the end…
- Rather than quit 'cold-turkey', can you move to few days week? (i.e. '***Phased Retirement***').
- Have you built up **1-2 years of cash**, short-term government bonds or other safer assets to use if market timing is unfortunate?

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SO WHAT CAN YOU DO?

Start to ask & answer these kinds of questions…

- **Where am I right now**? (*Emotionally, Physically, Financially*…)
- **What do I want retirement to be**? (*Golf/Garden, Volunteer, Travel, Part-time work, Back to School*…).
- **What am I spending now**? **How much income will I have to replace**? (75%+?)
- **How will I turn accounts into income**? (How much will IRS get as I draw from these accounts?)
- Am I **maximizing opportunities to save & invest** wisely? (*e.g.* ***At least*** *getting 401(k)/403(b) match?*)
- Do I **understand my retirement plan (or pension)** & how it functions?
- **When will I claim** Social Security?
- How will I handle **retiree health expenses**? **LTC**?
- Will we **downsize**? Or explore **relocating**?
- **What if** we have to adjust to __________? (*Layoff, health issues, issues with our kids, something else*..)

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BEST PRACTICE? *Here is what to aim for…*

- Build **Emergency Fund** (*3-6+ months of basic living expenses in FDIC-insured account*) – YES!
- Build **Buffer Fund** well <u>before</u> you plan to retire… (1-2+ years of target spending cash & safer bonds) – YES!
- **Maximize 401(k)/Roth 401(k)/403(b)…** retirement opportunities (*contributing in good & bad markets*)– YES!
- Add to **additional retirement accounts** as well (*Traditional IRA, Roth IRA, Spousal IRA, SEP-IRA… HSA*) – YES!
- Invest in **taxable accounts** as well (*bank or brokerage*), if possible – YES!
- **Monitor your future** (*i.e. good asset allocation, low-cost & diversified investments, rebalance*) – YES!
- **Maximize group benefits** like Disability Income coverage – YES!
- **Maintain life insurance** (*if have dependents or other death benefit needs*) – YES!
- Consider **sources of uncorrelated liquidity** for 'Break Glass in Emergency' situations – YES!
- Aim to **build financial resiliency** into your pre-retirement & retirement periods --- YES!

BEST PRACTICE? *Here is what to aim for* (*cont.*):

- **Manage your debt** (*i.e. reduce & eliminate debt, or carry "good" debt only*) – CHECK!
- **Monitor credit score** (*& improve it over time*) – DONE!
- **Don't sacrifice your financial well-being** by giving too much to grown children – CHECK!
- **Estate Planning** up-to-date (*Will, Revocable Trust, Living Will…*) – DONE!
- Review **how assets are titled** (i.e. *Beneficiaries 401(k)/403(b), IRAs… Life policies, Transfer On Death (TOD), real estate…*) – CHECK!
- Monitor **Social Security earnings** & benefit statement– YES! (https://www.ssa.gov/myaccount/)
- **Understand your retirement plan** & any pension or Deferred Comp plan – CHECK!
- Develop **plan for health insurance** (*i.e. understand HSAs, Medicare costs*) –YES!
- **Have plan to pay taxes** – YES!
- **Be informed, involved & proactive**… YES! YES! YES!

WHAT THE HECK IS **HECM** ANYWAY… *What if there aren’t enough liquid assets, or life throws major curveball?*

- HECM = Home Equity Conversion Mortgage, a/k/a Reverse Mortgage.
- For some clients, reverse mortgages are valuable tool in financial planning toolbox.
- Eligibility: Age (62+), primary residence, financial assessment (willingness & capacity).
- Borrower responsibilities: Live in home as primary residence, pay property taxes, HOI & HOA (if applicable), as well as maintain the property.
- Access to equity determined by: Age of *youngest* borrower on title, appraised value of home, current expected interest rates, & product chosen.
- Receiving equity: Any combination of (1.) **lump sum**, (2). **monthly payments** for set period, (3). **tenure payments** for as long as you reside in home, or (4). **line of credit**.

REVERSE MORTGAGES: *What else should you know?*

- They are <u>*loans*</u> (*i.e. origination fees, mortgage insurance premiums, appraisal fees, closing costs, interest*…).
- For "*House rich, but no so retirement rich*" clients, or retirees who want source of tax-free liquidity uncorrelated to stock market swings, they could be useful, <u>*if used wisely*</u>.
- Borrowers are protected by range of safeguards, making HECM most regulated HUD mortgage available. Third-party counseling is mandatory prior to application.
- HECMs are <u>*non-recourse*</u> loans.
- Homeowner retains title as long as loan terms are satisfied. Homeowner or estate is entitled to any remaining equity after loan balance repaid to lender.
- Equity line cannot be cancelled, frozen or reduced, & grows regardless of home value.

WHERE CAN YOU GET HELP?

And even help yourself…

- www.PlannerSearch.org
  - *Database of CERTIFIED FINANCIAL PLANNER™ & other professionals*
  - *Filters for fee-only vs. fee-based vs. commission-only compensation structures*
  - *Information on specialties (e.g. retirement income planning, divorce, college planning, women's finances, men's finances….), asset or fee minimums (if any)*
  - *With list of questions to ask for you to do due diligence in choosing planner who is good fit for you!*
- Suggested Reading:
  - ***The Little Book of Common Sense Investing*** by John C. Bogle
  - ***The One-Page Financial Plan*** or ***The Behavior Gap*** by Carl Richards
  - ***The Millionaire Next Door*** by Thomas Stanley & William D. Danko
  - ***The Investment Answer*** by Daniel Goldie & Gordon Murray
  - …

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Now armed with knowledge, go out and enjoy it! (*But stay flexible*!)