

# Retirement resources for an uncertain future.

By Henry (Bud) Hebel

[www.analyzenow.com](http://www.analyzenow.com)

American Association of Individual Investors

July 18, 2015



# Today's Menu

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- [Investments for difficult times](#)
  - Fundamentals
  - Annuities & a wise portfolio
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# **The Future We Face**

# Bleak Outlook Factors

- **Public & private debt spiraling out of control**
- **Fewer workers to support growing elderly**
- **Taxes have to increase to support growing welfare.**
- **Low savings**



# Disturbing Employee Benefits Research Institute Survey

- Just 48% of workers have calculated how much they need to save for retirement.
- Four in 10 workers and one-third of retirees say they spent eight or more hours planning for the holidays in the past year.
- Yet only 34% of workers and 21% of retirees report they spent that amount of time planning for retirement.



# Savings Suck

- According to a 2014 survey from the Employee Benefit Research Institute, only 64% of Americans have reported saving any money at all for retirement to supplement anticipated Social Security benefits.
- Those with some savings typically don't have much. The EBRI survey found that roughly six of every 10 Americans have less than \$25,000 in total retirement savings.
- <http://www.usatoday.com/story/money/personalfinance/2015/05/09/ebri-retirement-401k/26466299/>



# **Half of those close to retirement have NO savings per new report from the Government Accountability Office\***

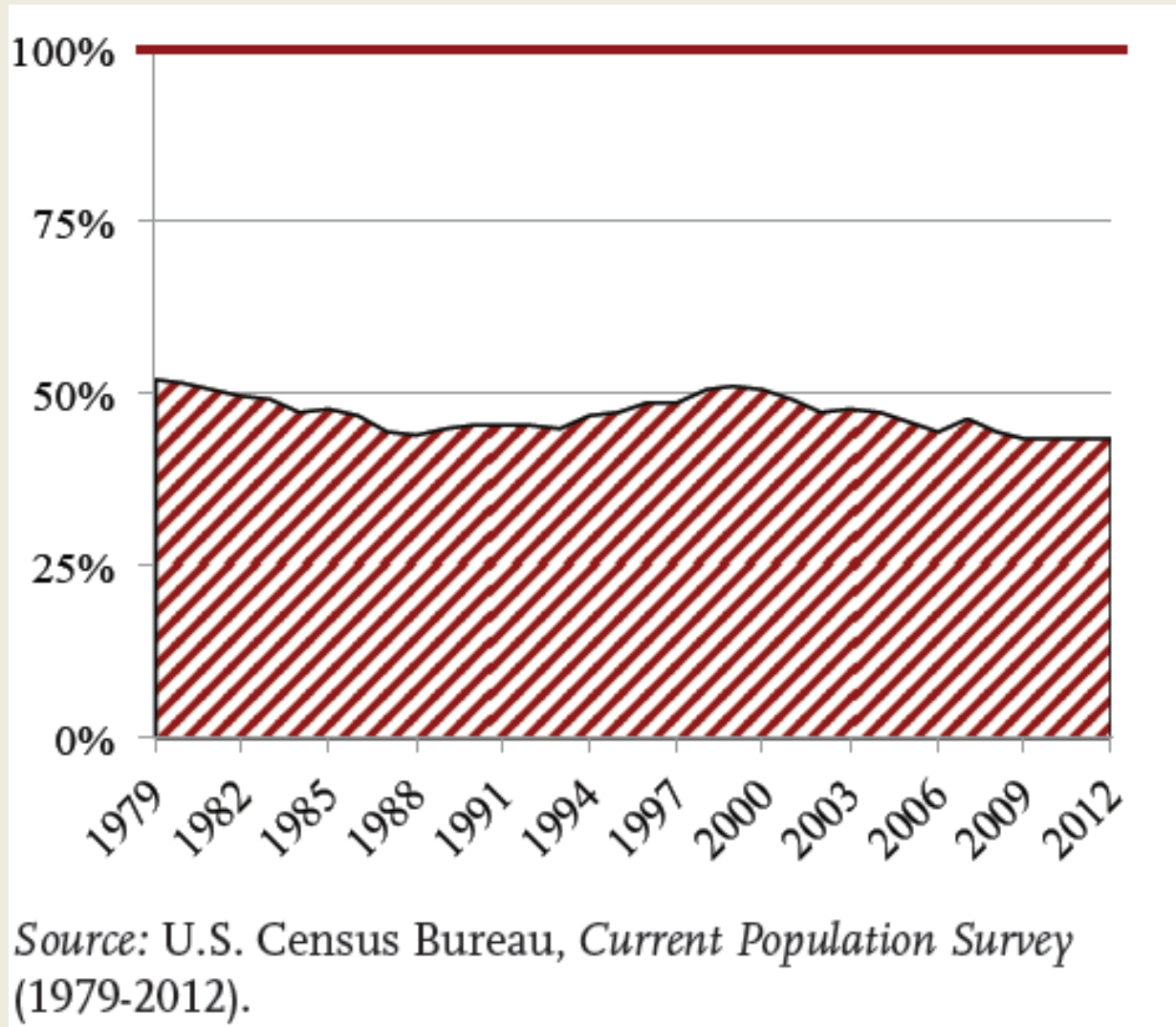
- **52% of those over 55 have no savings.**
  - But 44% of the 52% have a pension.
- **Of the remaining 42% who have savings**
  - **The median is only \$109,000.**

\* <http://www.gao.gov/products/GAO-15-419>



# Less than half of private sector workers use their employer's savings plans.

[http://crr.bc.edu/wp-content/uploads/2015/04/IB\\_15-7\\_508.pdf](http://crr.bc.edu/wp-content/uploads/2015/04/IB_15-7_508.pdf)





# To make matters worse: 26% of 401(k)s have loans against them!

<http://www.marketwatch.com/story/avoid-the-temptation-of-dipping-into-your-401k-2015-06-04>

- Laid off? Must repay within 60 days!
- Repay with after-tax \$. Taxed again on withdrawal.
- If not repaid, draw is taxed + penalty if under 59 ½.
- Likely loss of growth and matching funds

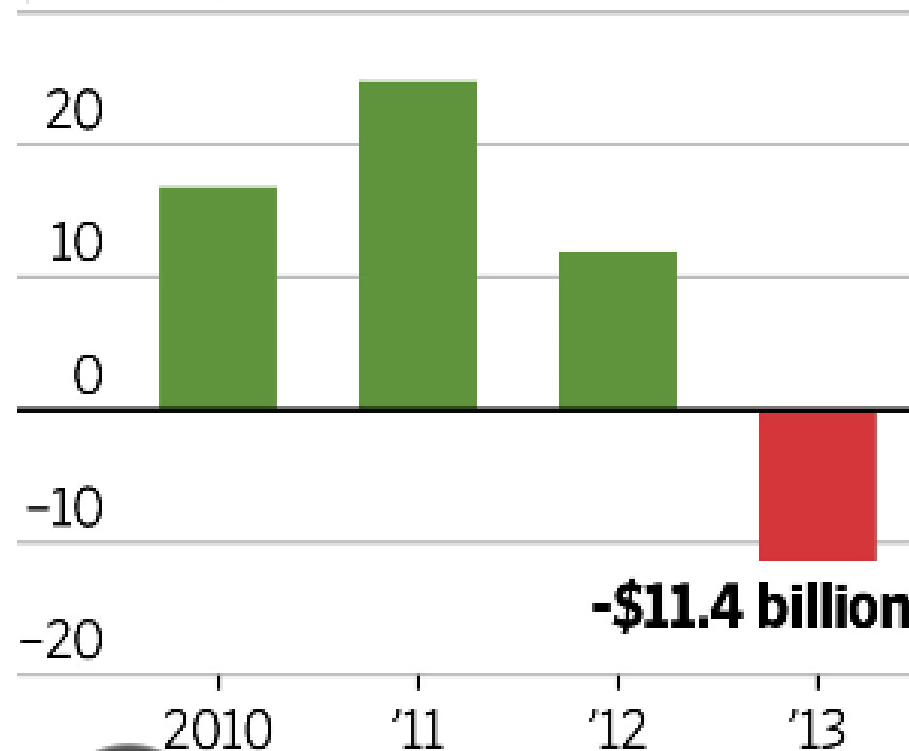


# 401(k) Draws now exceed deposits

<https://us-mg5.mail.yahoo.com/neo/launch?.partner=sbc&.rand=1uhn319r3m81n#>

## Difference between 401(k) contributions and withdrawals

\$30 billion



# Baby Boomers in Trouble

Transamerica Center for Retirement Studies Survey

- Average savings \$111,000.
- 19% do not participate in their 401(k)
- 23% have 401(k) loans
- 21% say they will have to work after retiring
- 36% expect to live mostly on Social Security
- 43% recognize they are not saving enough

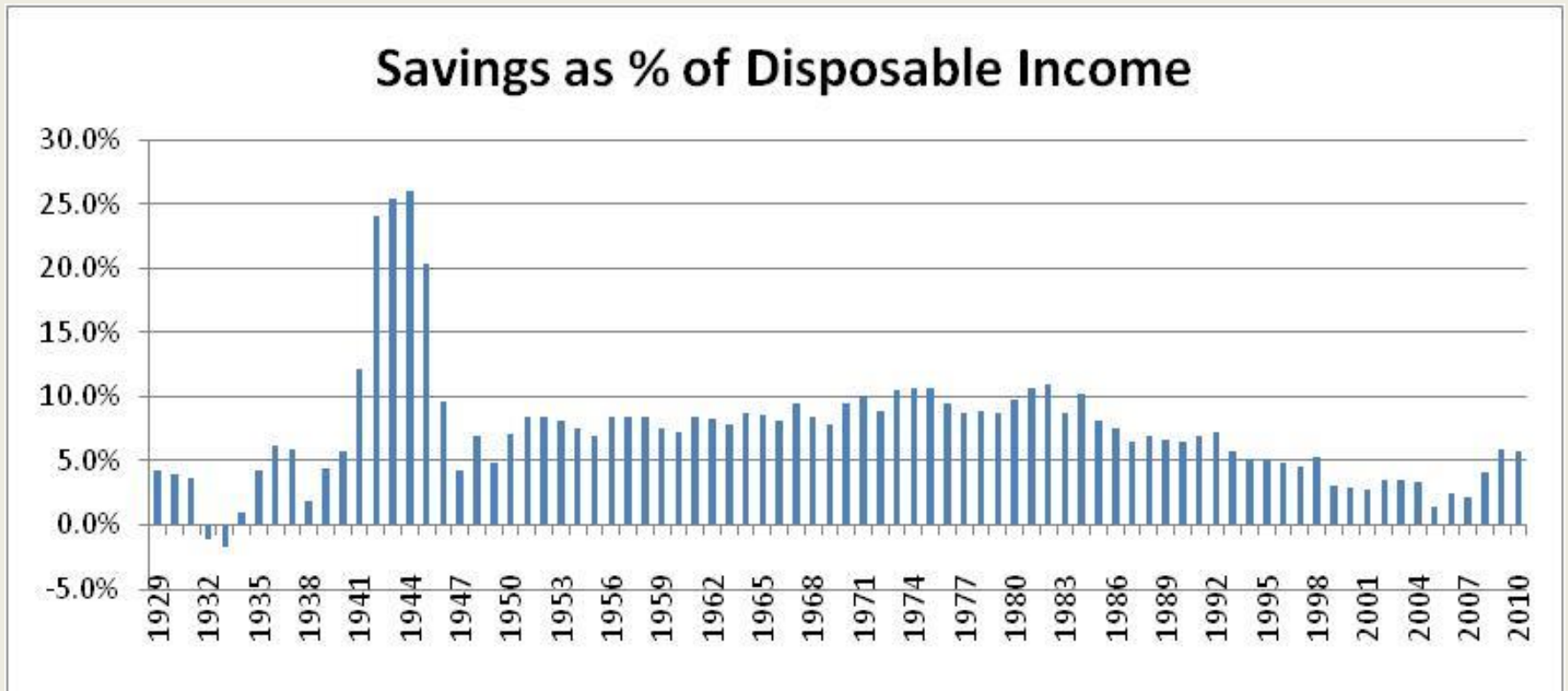
<http://www.usatoday.com/story/money/personalfinance/2015/03/21/cheat-sheet-baby-boomers-retirement/24988969/>



# Savings History

- In World War II, people saved over 25% of their disposable income (gross – federal income tax).
- Savings leveled off at about 9% until 1985
- A linear decline followed 1985 until reaching Great Depression savings levels in 2005.
- Now up to 5%--when people should be saving 10% if they have a pension, otherwise 15%.
- See next chart.

# We need more, not less savings!



# Median savings far different from average

- **Example for 2013 IRA balances:**
- **Average 2013 balance = \$119,804**
- **Median 2013 balance = \$32,179**

Source: Seattle Times from EPRI study



**Debts!**

# Personal Debts

- US Households, as of March 2014 have an average credit card debt of \$15,000 and a mortgage over \$152,000
- Average college graduate has a student loan of almost \$33,000.

Forbes, 1/4/15





# Student debt hurts future

[http://www.wsj.com/articles/mitchell-e-daniels-how-student-debt-harms-the-economy-1422401693?mod=hp\\_opinion](http://www.wsj.com/articles/mitchell-e-daniels-how-student-debt-harms-the-economy-1422401693?mod=hp_opinion)

- The average borrower in the class of 2014 left with \$33,000 of college debt.
- 40 million people, roughly 70% of recent graduates, are now borrowers.
- Educational debt of \$1.3 trillion this year has shot past every other category—credit cards, auto loans, refinancing—except home mortgages.
- And the feds will not forgive it!



# Debts of States & Local Governments

- State taxes fall short of outflows by \$48 billion
- Wracked by pension obligations
- Most government pensions have COLAs– which exacerbate trust funding problems
- May be sovereign power, but some courts have ruled that it's illegal to abrogate public union contracts.



# Pension Funding Problems

- Public pensions: There are \$3 trillion worth of unfunded pension liabilities at the state level, and \$400 billion of unfunded liabilities at the large-city level
- Private pensions: Few still exist. Surviving ones are struggling and/or considering reductions. Only 83% funded. GE is 75%.
- The PBGC does not have enough money to support current obligations much less many more private trust failures.



# Underfunded & Risky

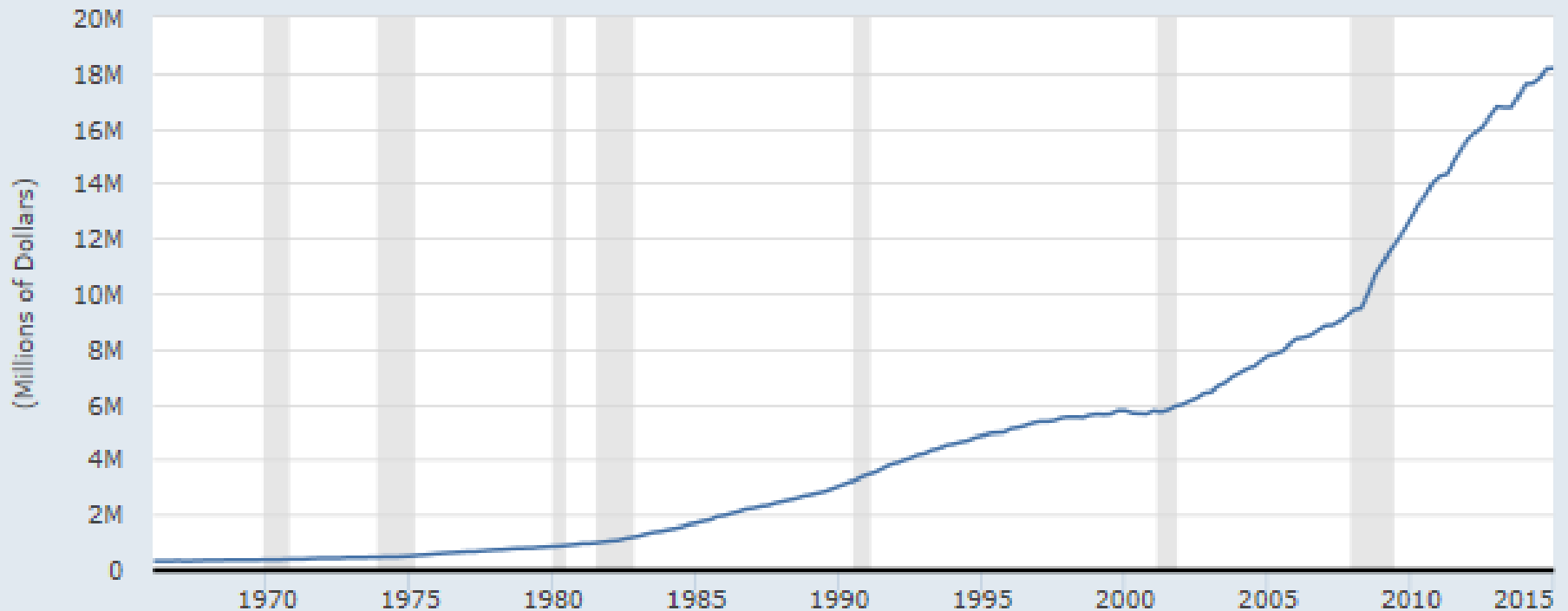
- Only 41% of state and local plans received their full contribution last, down from 65% in 2008.
- If U.S. public plans operated under the same accounting rules as corporate pensions, annual contributions would roughly double.
- New York state plans to defer \$1 billion.
- PA's school-employees retirement plan got less than half its full contribution.
- Kansas is borrowing \$1 billion which it will invest in hopes of generating a 7.75% annual return.
- State and local governments are required to contribute half as much as private
- 6-in-10 public plans fail to receive even that.
- <http://www.wsj.com/articles/the-public-pension-funding-trap-1433109363?KEYWORDS=public+pension+trap>



# Appalling National Debt

FRED 

— Federal Debt: Total Public Debt



# It will get worse!

- Government accounting does not include unfunded future obligations.
- These are well over \$200 trillion needed to cover Social Security, Medicare, welfare programs and growing government pensions.
- Government requires industry to account for their future obligations but not itself.
- We need politicians who will run and hope to win on long-term management.



# Is the interest on the national debt affordable? **Not without cuts or inflation!**

<http://www.politifact.com/wisconsin/statements/2013/sep/15/chris-kapanga/interest-payments-us-debt-exceeds-us-tax-revenue-w/>

- Total interest payments = \$220 B to outsiders + \$140 B from SS trust, etc. = \$360 B in 2012.
- CBO projects that the \$220 B will be \$644 B by 2020. Also, the \$140 B will grow appreciably.
- 1/7<sup>th</sup> of tax revenue goes to interest now.
- By 2020 it will be about 1/3 of tax revenue— or more with higher rates.
- Printing money appears to be the only solution that the majority would accept.





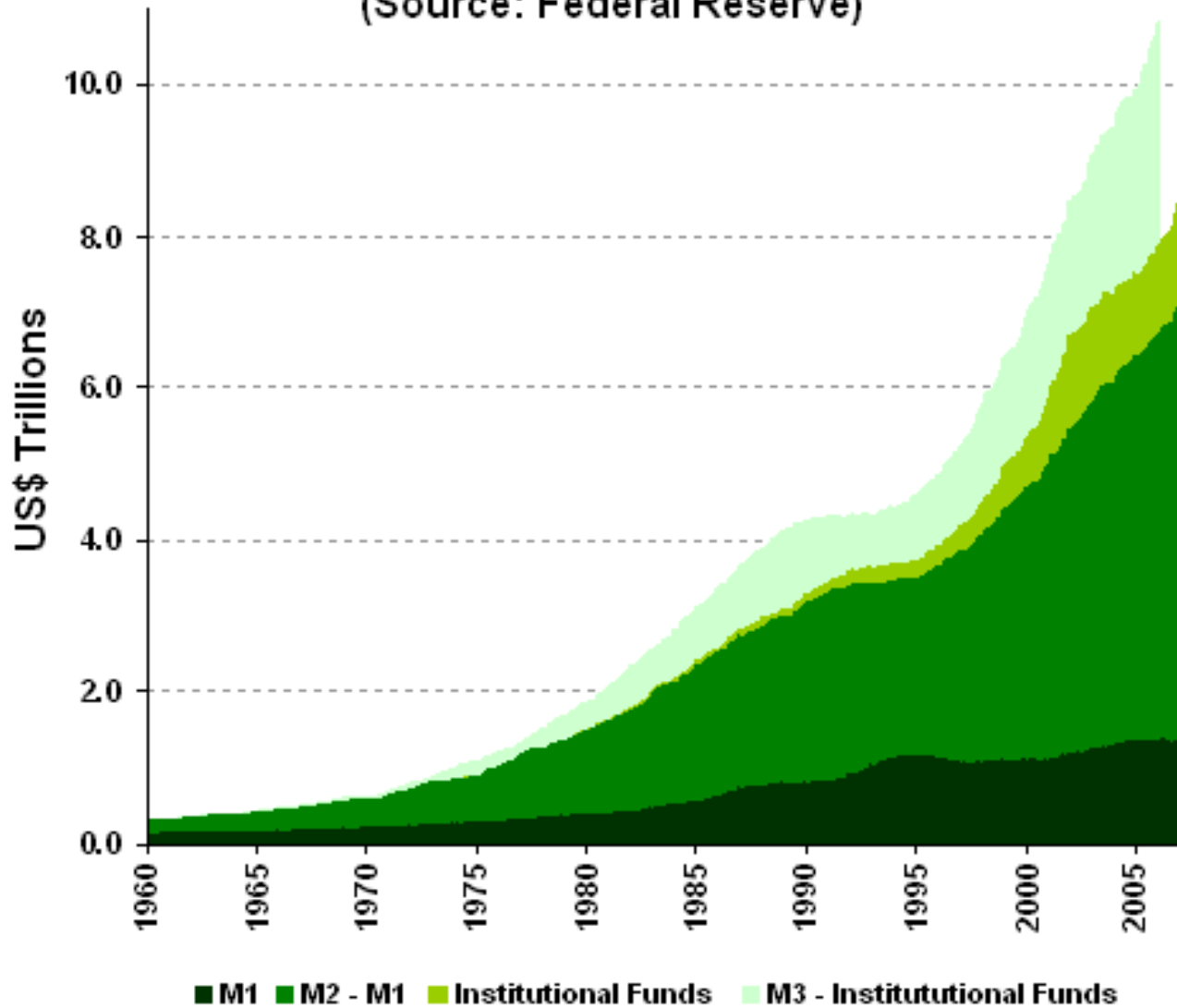
# Lots of pages

- Tax code, 16,845 pages long. A copy will cost you \$1,153, postage included.
- 1040 instructions contain 121 forms.
- Medical reporting codes to go from 18,000 to 122,000 next year.



# U.S. Total Money Supply

(Source: Federal Reserve)



[www.DollarDaze.org](http://www.DollarDaze.org)



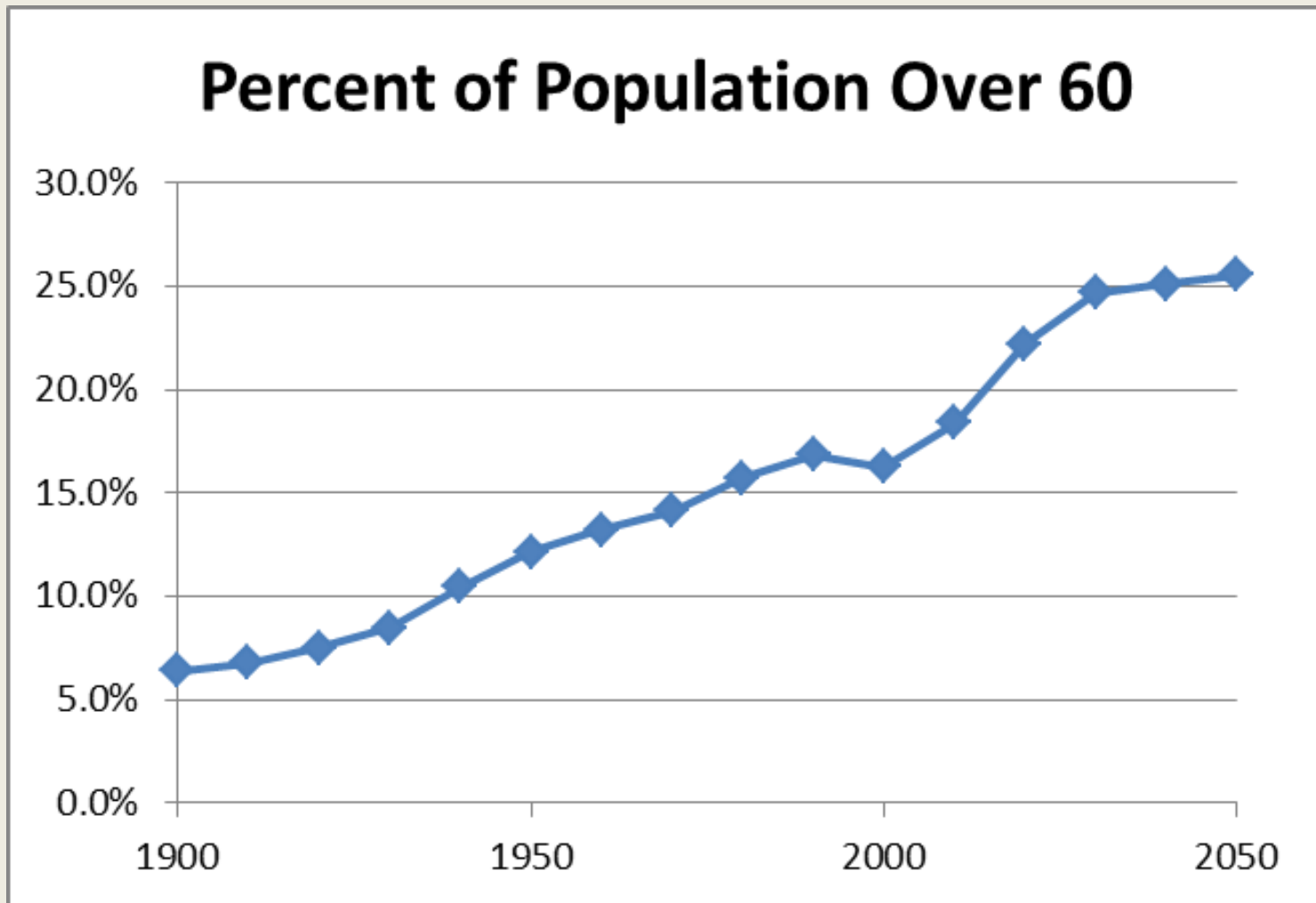
# When will reckoning come?

- Tax code driven by social engineering
- Total taxes divided by Number of households EQUALS median household income
- Printing money to pay debts
- Stagflation grows to Depression-Hyperinflation
- Aging of population
- Youth oblivious of history, economics, need to save
- Barter, underground economy like USSR
- Growing numbers on welfare
- Patriotism & intentional financial sacrifice almost dead
- Change cataclysmic or like watching paint dry?



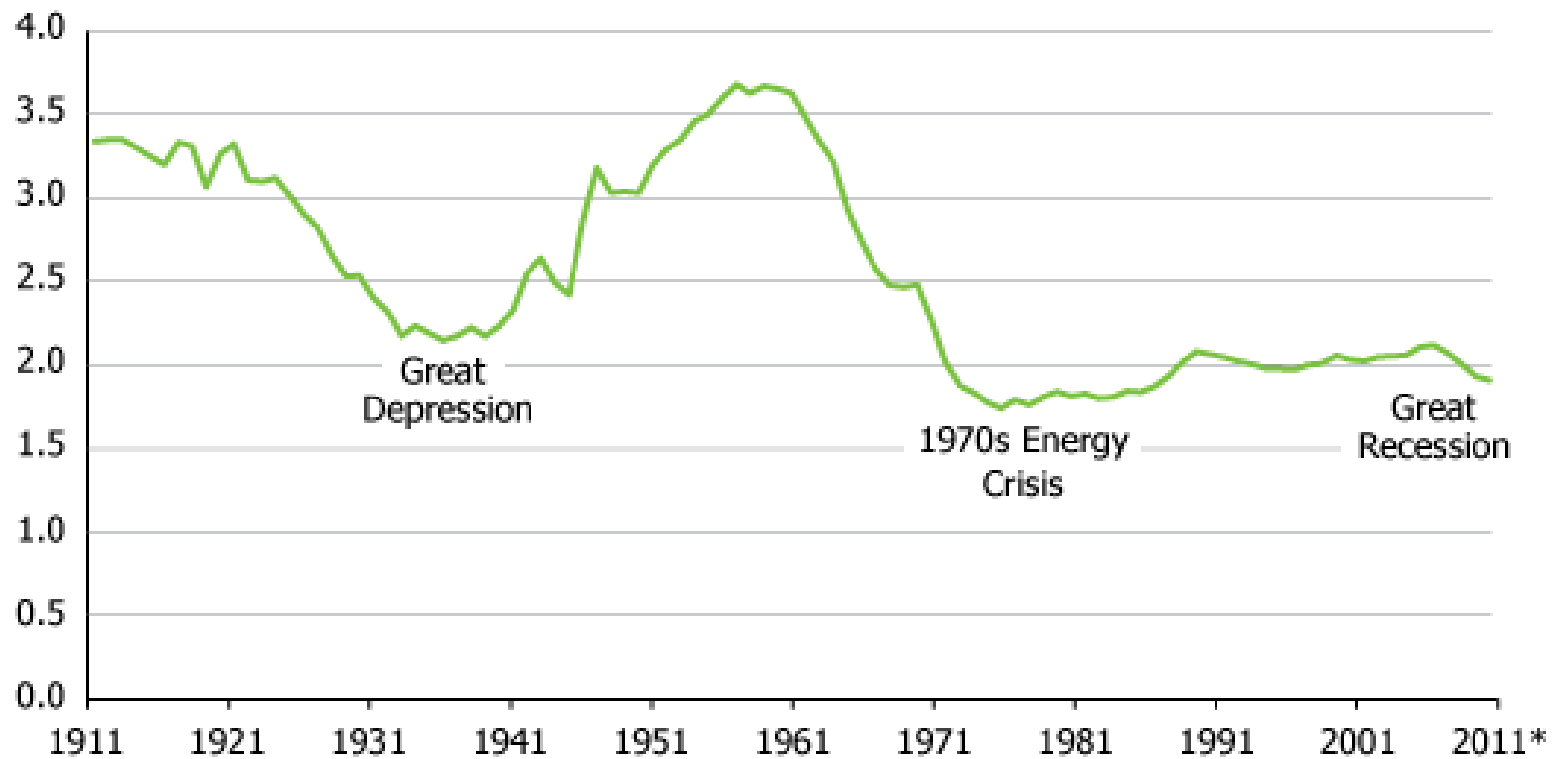
# Demographics

# Our aging population



# US Birthrate now below sustaining population

Number of Children per Woman



# Census Estimates

- In next 10 years:
  - Population over 65 will increase 38%.
  - Population of 18 - 64 will grow only 3%.
  - <http://www.usatoday.com/story/opinion/2015/05/07/jobs-numbers-labor-shortage-baby-boomers-inflation-editorials-debates/70973518/>
- For every 100 workers:
  - 27 people collected benefits in 2000
  - 37 people are collecting benefits today
  - 47 people will be collecting benefits in 15 years
  - <http://www.usatoday.com/story/opinion/2015/05/07/jobs-labor-shortage-center-for-immigration-studies-editorials-debates/70974006/>
- By 2050, 20% of total population will be over 65 vs 15% today.

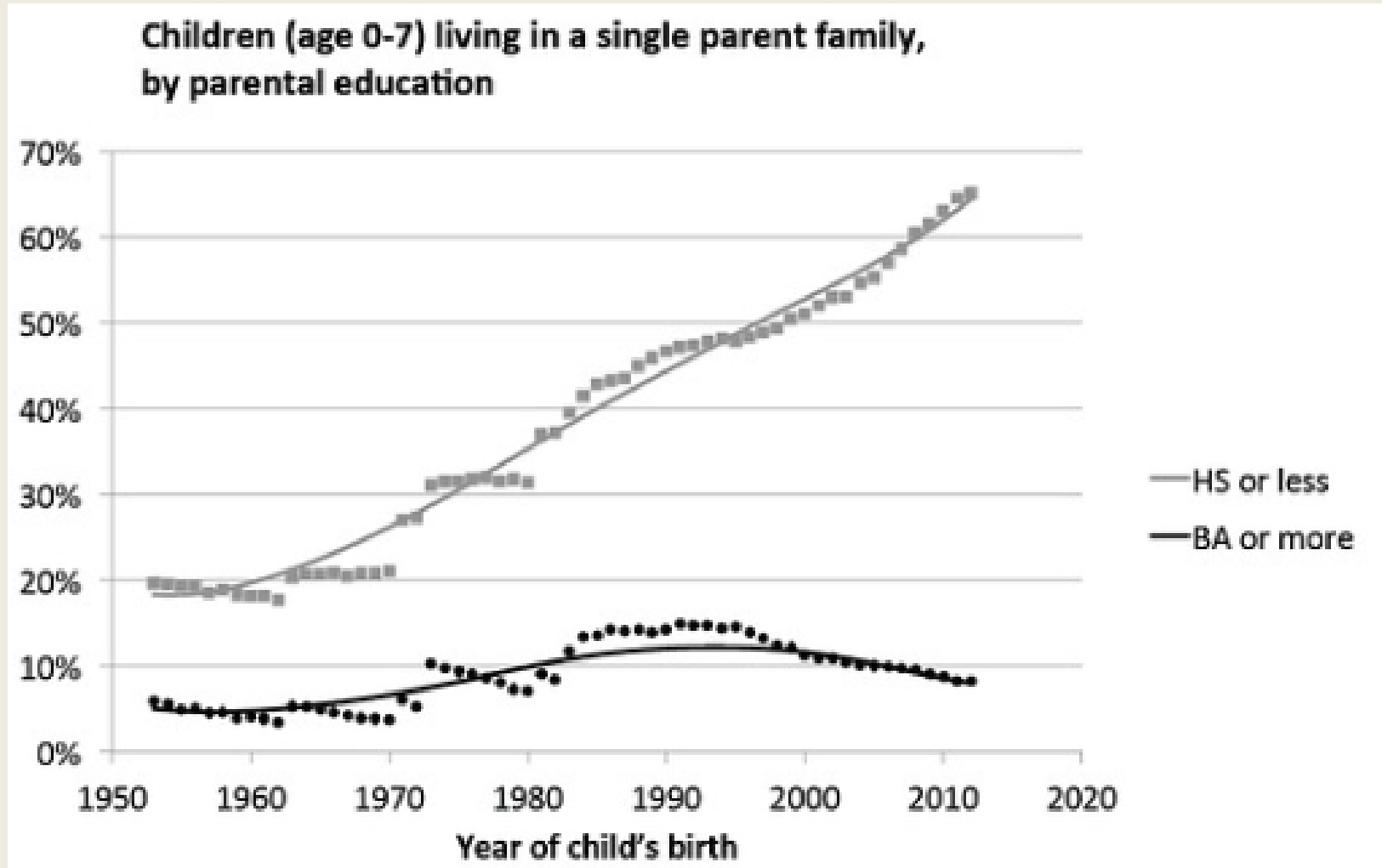




# Almost 50% of children raised by single parent.

Chart: [http://www.marketwatch.com/story/why-the-american-dream-is-unraveling-in-4-charts-2015-03-18?link=MW\\_popular](http://www.marketwatch.com/story/why-the-american-dream-is-unraveling-in-4-charts-2015-03-18?link=MW_popular)

Putnam/Our Kids/S&S



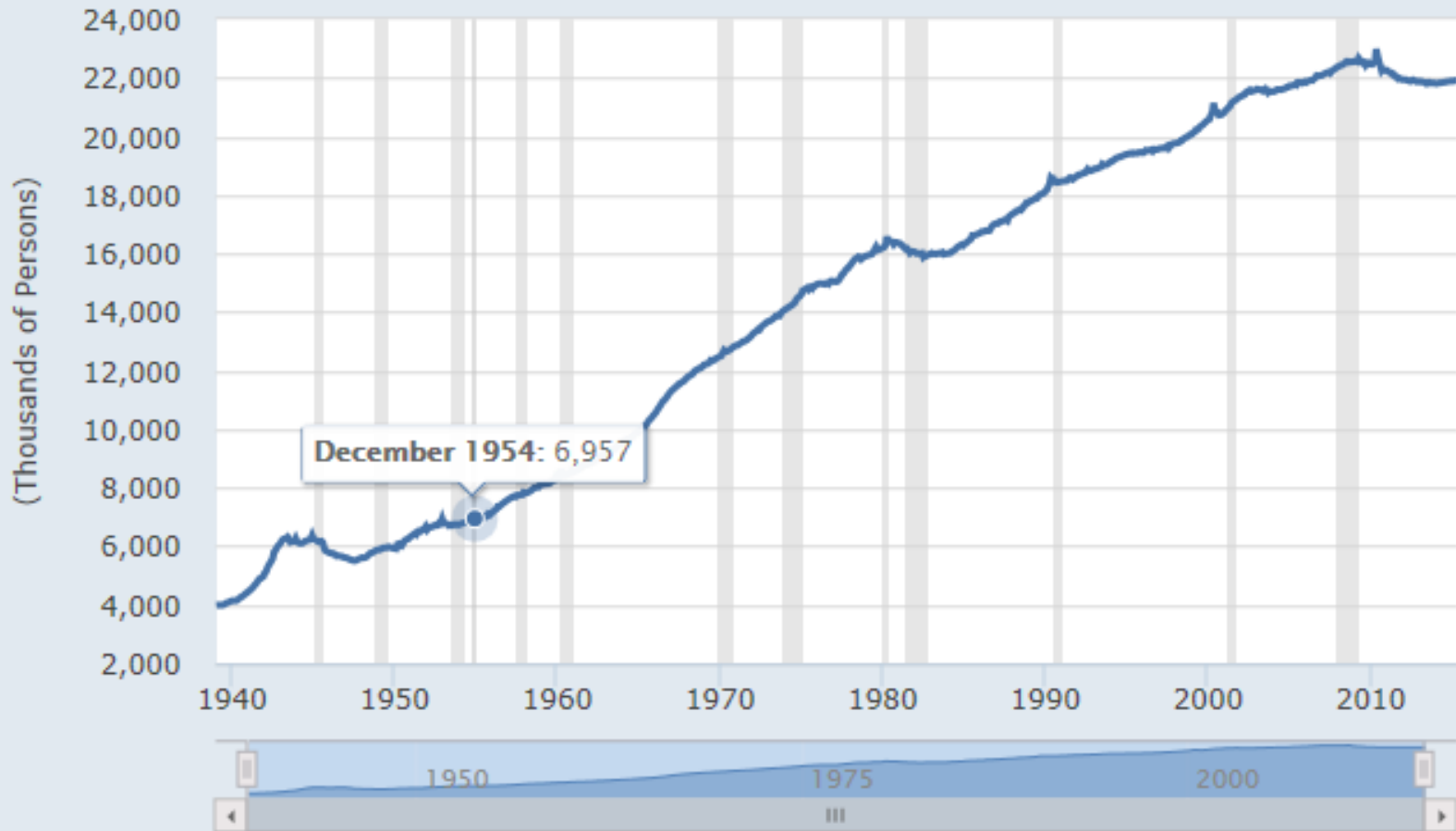
**Taxes**



# Growth of government

FRED

— All Employees: Government



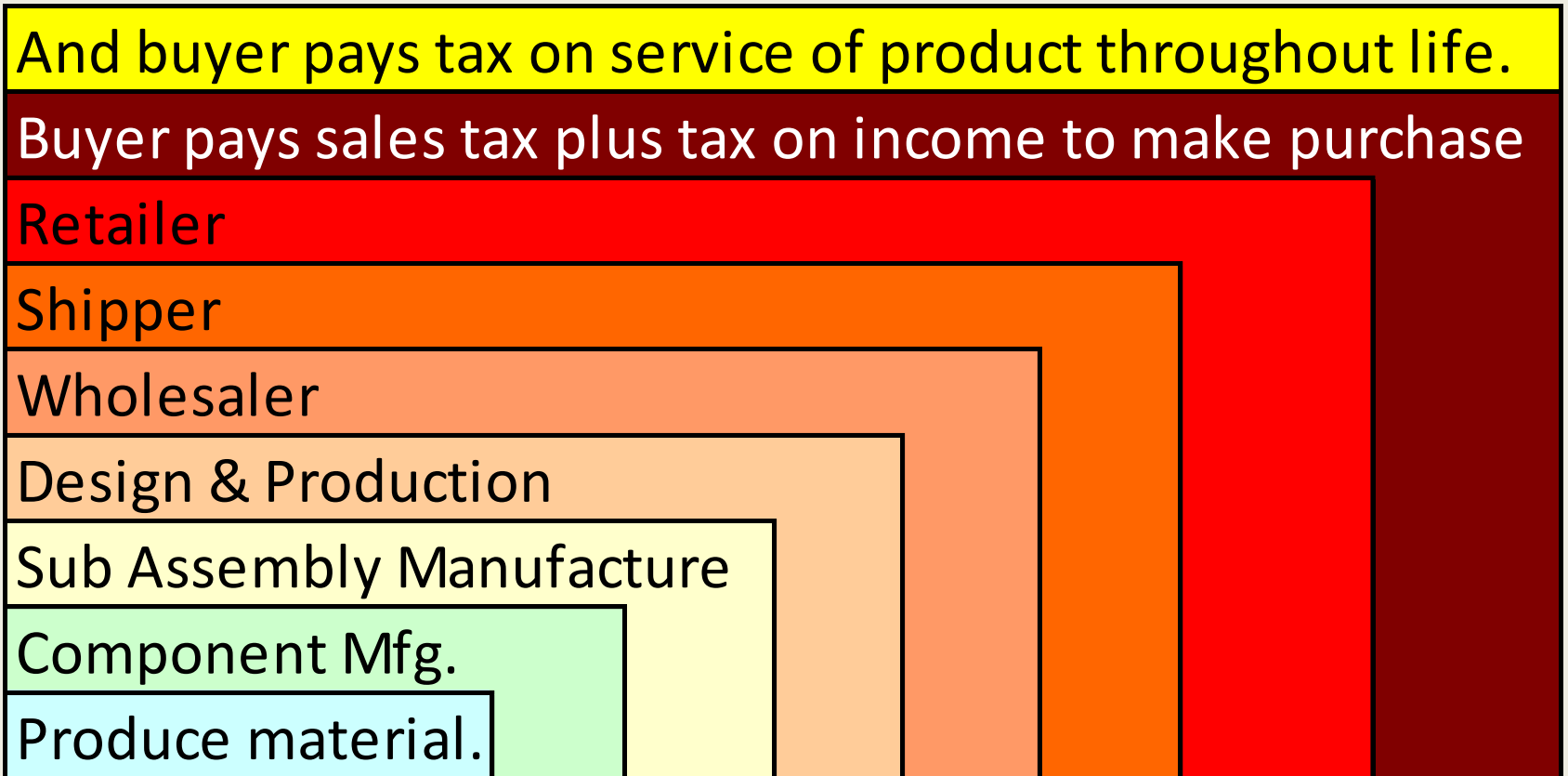
Source: US. Bureau of Labor Statistics

Shaded areas indicate US recessions - 2015 research.stlouisfed.org



# Tax on tax on tax on tax on tax!

We pay it all when we buy and use a product.



# Tax at each levels compounds

- Suppose there 8 levels from material mining to retail store. (Some have more, some less.)
- 30% corporate tax on 10% profit = 3% at each level.
- 3% at each level cumulates to 6% corporate tax at retail store.
- Then we pay sales tax on the corporate tax.
- And we pay taxes to service the product.





# Lots of pages

- Tax code, 16,845 pages long. A copy will cost you \$1,153, postage included.
- 1040 instructions contain 121 forms.
- Medical reporting codes to go from 18,000 to 122,000 next year.

# Congressional Budget Office

## Projected PV (Outlays – Receipts)

- Extended Baseline Forecast (EBF)  
\$47 trillion owed
- Alternative Baseline Forecast (ABF) \$205 trillion owed
- Usually difficult to find, but since 2014, it's truly buried.



# Draconian Fixes Required

- Increase all federal taxes now and permanently by 57%.
- Or, reduce federal spending, except interest on debt, by 37%.
- Or severely devalue the dollar
- Or some combination of above
- Or declare bankruptcy and default.



# **Social Security, & Medicare**



# Social Security Viable?

- Sometime between 2020 and 2025, there will be more people retired than working.
- Between now and 2030, 10,000 to 15,000 people will turn 65 EVERY DAY.
- One in four retirees have no income other than Social Security.
- One in three retirees in Maine have no income other than Social Security.

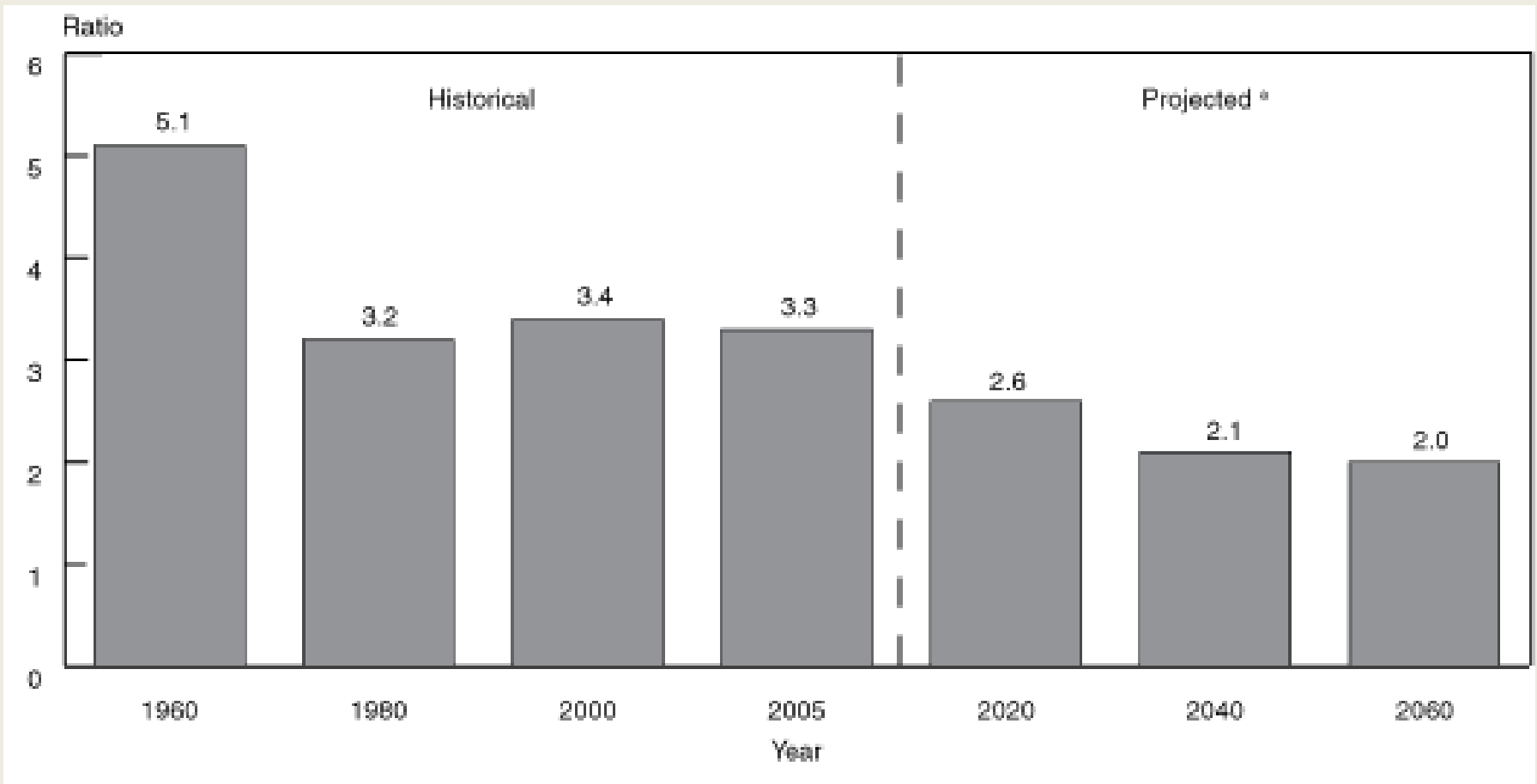
USA Today, 1-14-15: <http://www.usatoday.com/story/money/columnist/brooks/2015/01/13/retirement-congress-pensions-social-security-medicare/21501407/>





# SSA projects fewer workers / beneficiaries

<http://www.ssa.gov/policy/docs/ssb/v66n4/v66n4p37.html>





# Is Social Security welfare?

- Lower income people get proportionately more
- Original intent was that average person would effectively pay for his/her benefits.
- Now current recipients are dependent on FICA taxes of younger people.
- Trust will run out in about 25 years and people will get about 75% of current stated amounts.
- Now only the rich can say they paid for their own.



# Social Security Replacement Rate

- Social Security was meant to replace about 40% of a worker's wage, not the entire wage.
- In recent years a number of changes have weakened this percentage
  - The increase in Full-Retirement-Age to 67.
  - Taxable portions were not indexed for inflation.
  - Medicare premiums are rising



# What do these have in common?

- A pair of glasses
- Hearing aids
- A tooth implant
- Answer: **None are covered by Medicare**

**Medicare!**

# And look at Medicare costs!

- Part B premiums alone are estimated to increase from 5.4 percent of the average Social Security benefit for someone retiring in 1990 to 10.4 percent for someone retiring in 2030.
- [http://crr.bc.edu/wp-content/uploads/2015/04/IB\\_15-7\\_508.pdf](http://crr.bc.edu/wp-content/uploads/2015/04/IB_15-7_508.pdf)





# Feds annual health care Costs are sky rocketing up

<http://www.usatoday.com/story/opinion/2015/07/06/greece-debt-usa-pensions-benefits-editorials-debates/29784591/>

- **Now \$1.1 Trillion**
- **Up TEN times since 1985**
- **Now is 30% of the federal budget**

# Drug costs are growing

- 139,000 used at least \$100,000 worth of medication PER YEAR
- More than a half-million U.S. patients had medication costs in excess of \$50,000 in 2014
- Technology finding more cures, but cost can be very high.
- The total cost to health plans for U.S. patients with prescription drug expenses in excess of \$50,000 was \$52 billion in 2014,

- <http://www.reuters.com/article/2015/05/13/us-usa-pharmaceuticals-costs-idUSKBN0NY08H20150513?feedType=RSS&feedName=healthNews>





# 2015: Don't break a bone!

- Friend broke collar bone
- Had out-patient surgery
- Hospital billed \$68,166
- Negotiated outcome:
  - Insurance paid \$7,037
  - Patient paid \$1,804
- In addition, Doctor billed \$2,955





# Average couple retiring in 2010

- Will have received \$387,000 Medicare payments
- Paid only \$122,000 in MC taxes
- And needed personal reserves of over \$200,000 per Fidelity Investment projection of insurance premiums and out-of-pocket costs not including long-term-care.
- <http://www.politifact.com/truth-o-meter/article/2013/feb/01/medicare-and-social-security-what-you-paid-what-yo/>

# **Investments for difficult times**

- **Fundamentals**
- **Reverse DCA, annuities, social security interactions & a wise portfolio**



# Investment Return Leaks

## Reduce Costs

Advisors

401(k), 403(b), etc.

Brokers

Fund costs + loads

Commissions

Fees

12(b)-1 kickbacks

## Reduce/Defer Taxes

Investment vehicles

Strategic allocations

Strategic withdrawals

Individual securities or funds  
or ETFs

Trusts

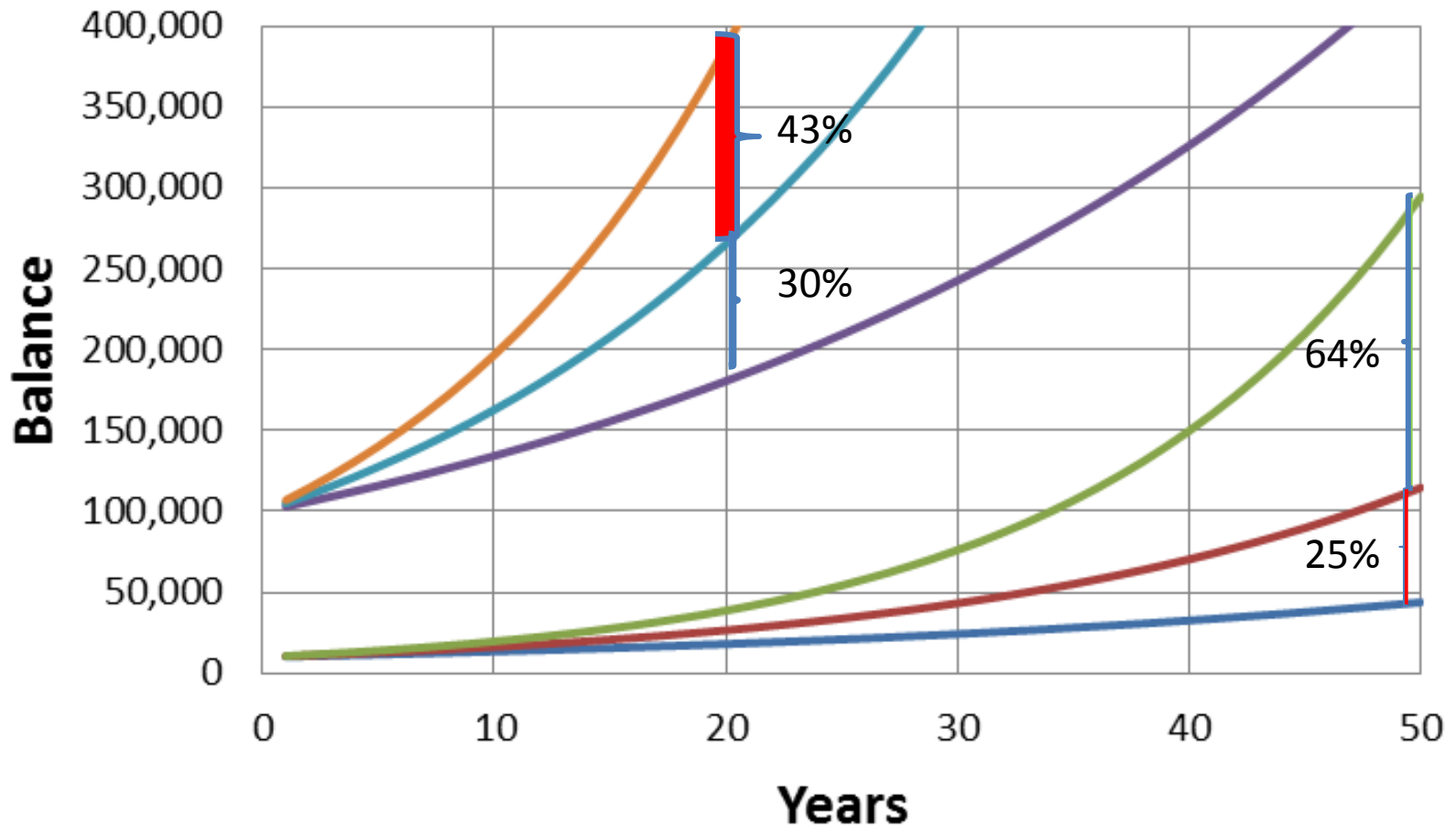
Donor advised funds



# **It's easy to have 2% or even 4% return reduction with costs & taxes.**

- Many teachers' 403(b)s have over 2% costs.
- Many funds have front end costs of over 4%.
- Taxes of 28% on dividends & interest reduce a taxable portfolio's 7% return to 5%.
- Costs of only 0.3% plus 28% tax on 5% returns reduce a taxable return to 3% as do costs of 2% combined with tax rates of 20%.
- Example on next chart: In 20 years there is a 43% loss of savings going from 7% to 5%.

# Investment costs destroy growth of \$10,000 and \$100,000. Each has 7%, 5% & 3% growth



# Fund costs depend on provider

Examples from July 2015 Financial Planner

- Vanguard S&P 500 Admiral  
0.05% annual cost
- Guggenheim's Rydex S&P 500 C  
2.27% annual cost

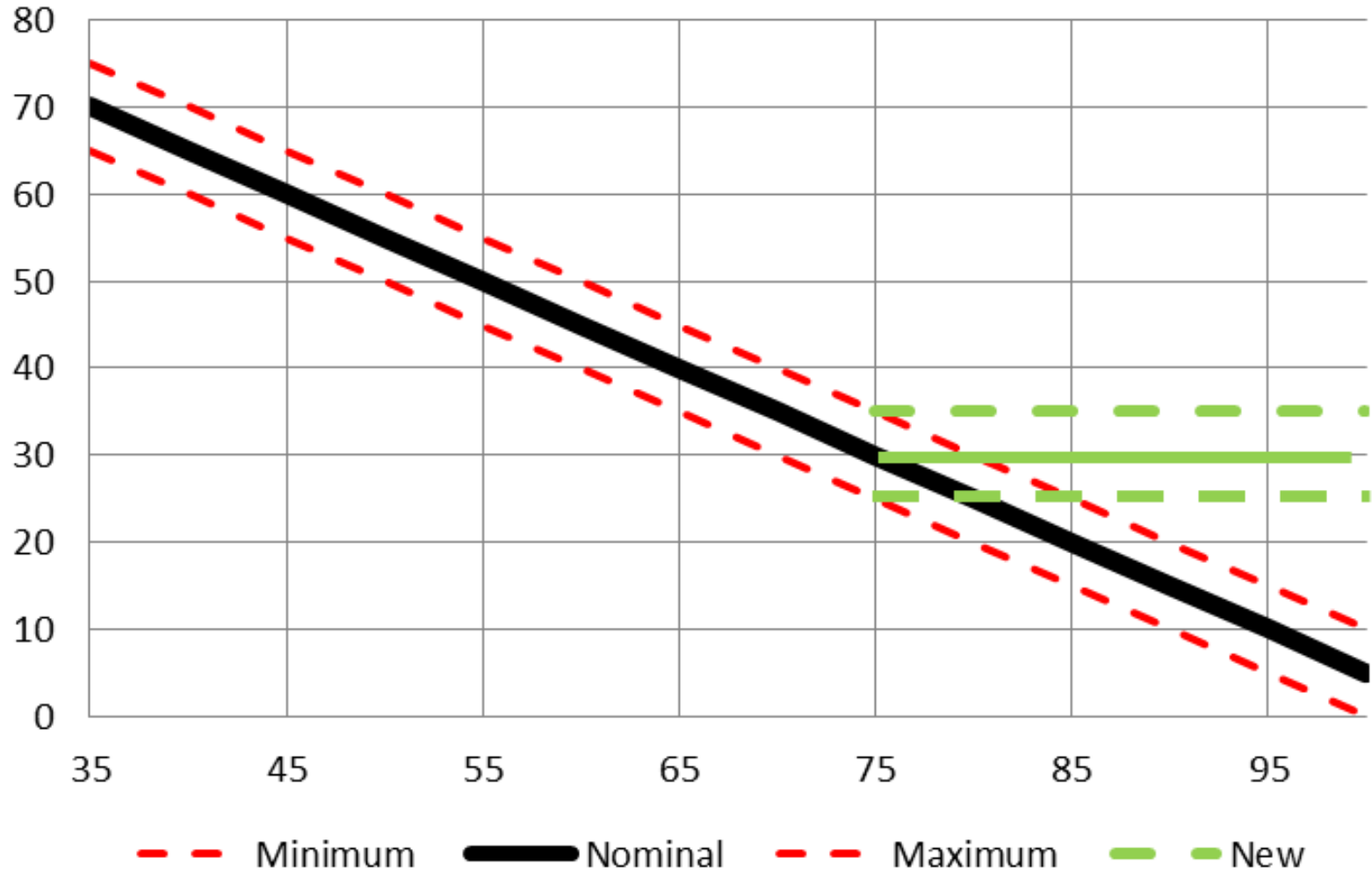
# Select Low Cost Firms

- Vanguard
- TIAA-CREF
- Fidelity
- T. Rowe Price



# My Allocation Rules

$$\text{Stock \%} = 105 - \text{Age}, \pm 5\%$$



# I tell my kids & grandkids:

- Always save 15% of your take-home pay if no pension
- When possible, save before you buy.
- Don't count your home as an investment
- Don't invest in time-shares or partnerships
- Keep emergency funds in liquid, taxable accounts.
- Allocation rules for buy/sell decisions
- **Use low cost funds and consider taxes**



# Reverse Dollar Cost Averaging

- When workers make regular deposits, DCA takes advantage of buying more shares when security prices are low and fewer when prices are high.
- When retirees make regular withdrawals, the reverse happens, hence Reverse DCA
- That said, there are some exceptions.



# Returns affected by **Reverse** Dollar-Cost-Averaging

## Pre-Retirement Scenarios

New yearly savings are adjusted upward each year with inflation.

Future savings are shown in today's dollar values to keep them in perspective.

Years till retire	Current savings	New yearly savings	S & P Stocks	Investment Costs	Savings in 20 years	
					1965 start	1948 start
20	100,000	10,000	60%	1.0%	351,470	792,844
Inflation-adjusted returns>					1.1%	6.7%

## Post-Retirement Scenarios

Spending increases each year with inflation. Savings are in today's dollars.

Years till death	Current Savings	Annual spending	S & P Stocks	Investment Costs	Savings left after 20 years	
					1965 start	1948 start
20	200,000	10,000	60%	1.0%	(4,238)	396,981
Inflation-Adjusted Returns>					-0.2%	7.5%

Source: Quick Retirement Analysis from [www.analyzenow.com](http://www.analyzenow.com)



# **Investment Risks**

## **A different view**





# There are several kinds of risks.

- Risk as used by financial planners is a statistical measure of investment performance.
- The statistics most often truncate the tails. Nicholas Taleb calls these Black Swans and has based a great book on these.
- Another kind of risk comes from a surprise event like a stroke or divorce. These are often greater than investment risks.



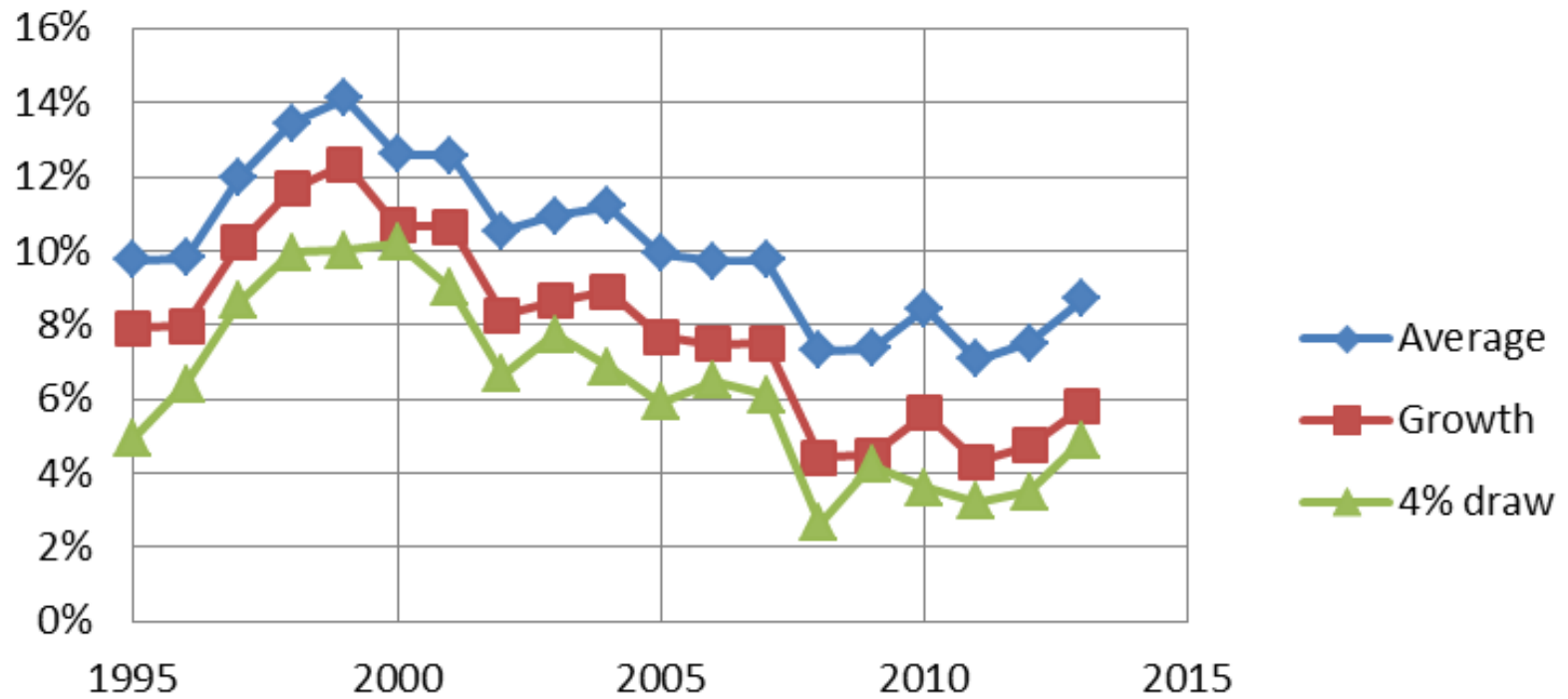
# Next chart may be most important!

- Over the 20 years preceding 1995, the average of S&P 500 returns less inflation (Blue line) was 10%. This period was followed by huge stock growth. Then a steady decline to 8%.
- Savings with only 1% costs 20 year growth (Red line) was about 2% less than the averages.
- Worse, regular retirement withdrawals for 20 years lost another 2%.
- Conclusions: Future returns are likely to be lower, minimize investment costs, don't use an average return, and retirement will bring lower returns!

# Future returns will not be the same!

## 20 year REAL S&P 500 returns

(Growth & 4% Draw after 1% costs)



20 year period ending in this year





# **How did the average investor do?**

**Forbes: “A paltry 2.3% annualized return for the past 20 years.”**

<http://www.forbes.com/sites/robertlenzner/2013/08/25/how-to-do-better-than-the-average-investors-paltry-2-3-annualized-return-for-the-past-20-years/>

# Important planning considerations

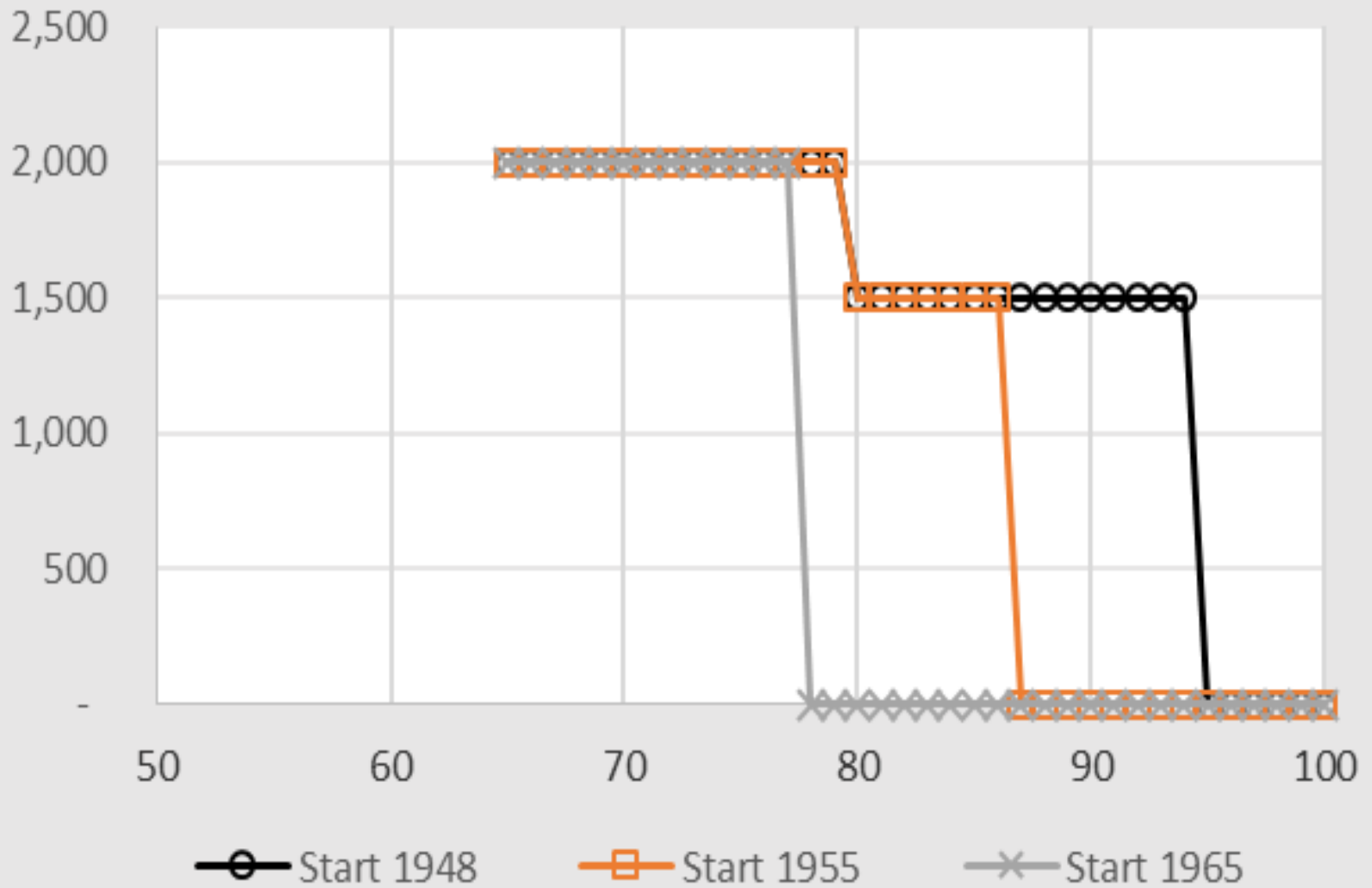
- Life spans and survival benefits
- Survivor's spending after 1<sup>st</sup> spouse dies
- Allocation % of stocks
- We'll compare 60% stock vs. 30% in three scenarios in the following charts.

# Example for 60% stock

- Start with \$300,000 savings
- Couple would like to spend \$2,000 a month from savings.
- Survivor could live on \$1,500 a month.
- **A spouse dies at 80.**
- Consider 3 widely different scenarios:
  - 1948 and on: Post WWII boom years
  - 1955 and on: A fairly benign period
  - 1965 and on: Market plunges & high inflation

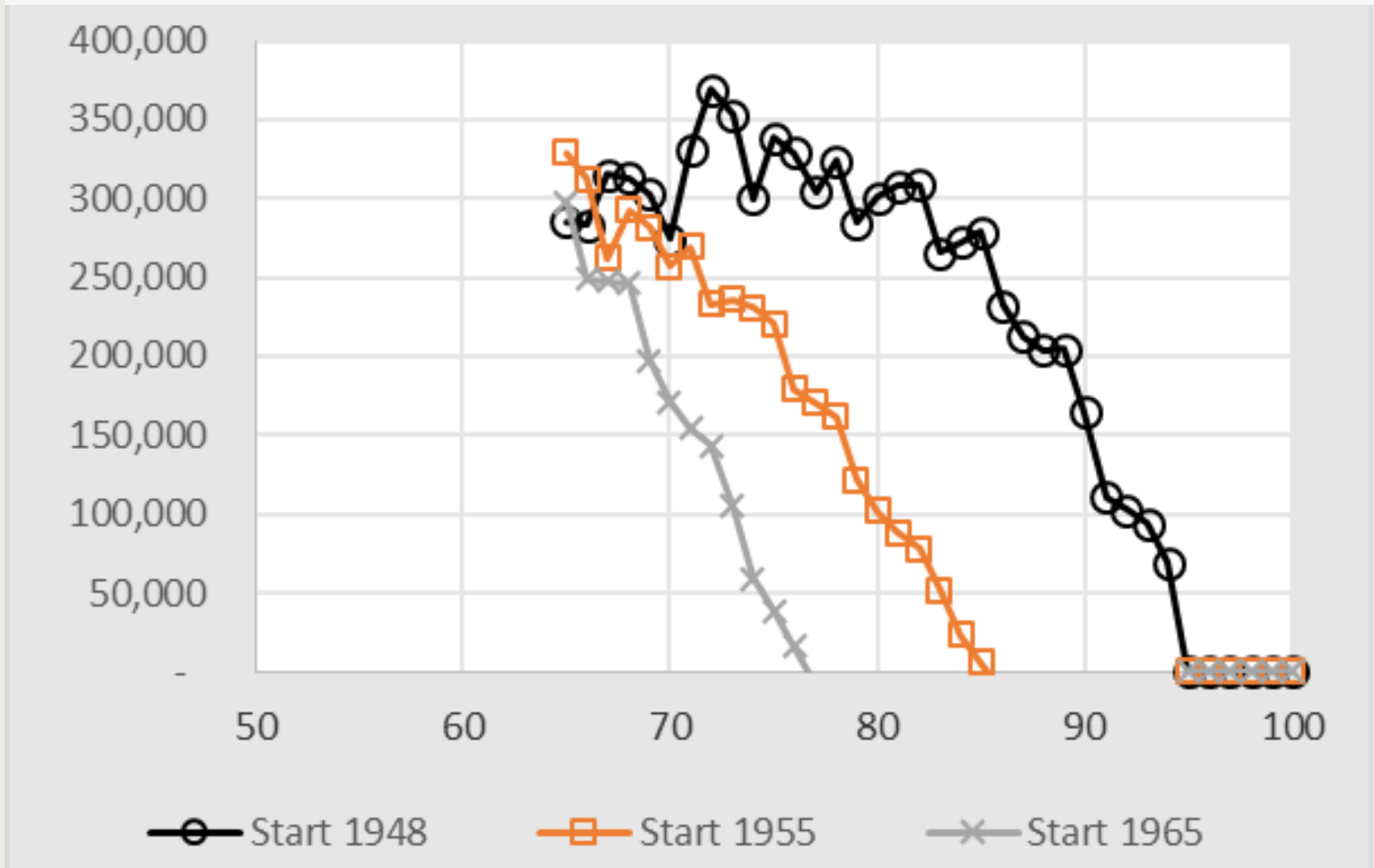


# Monthly Budgets in today's \$s with 60% stocks.



Source: AnalyzeNow.com's free Retirement Investment Optimizer

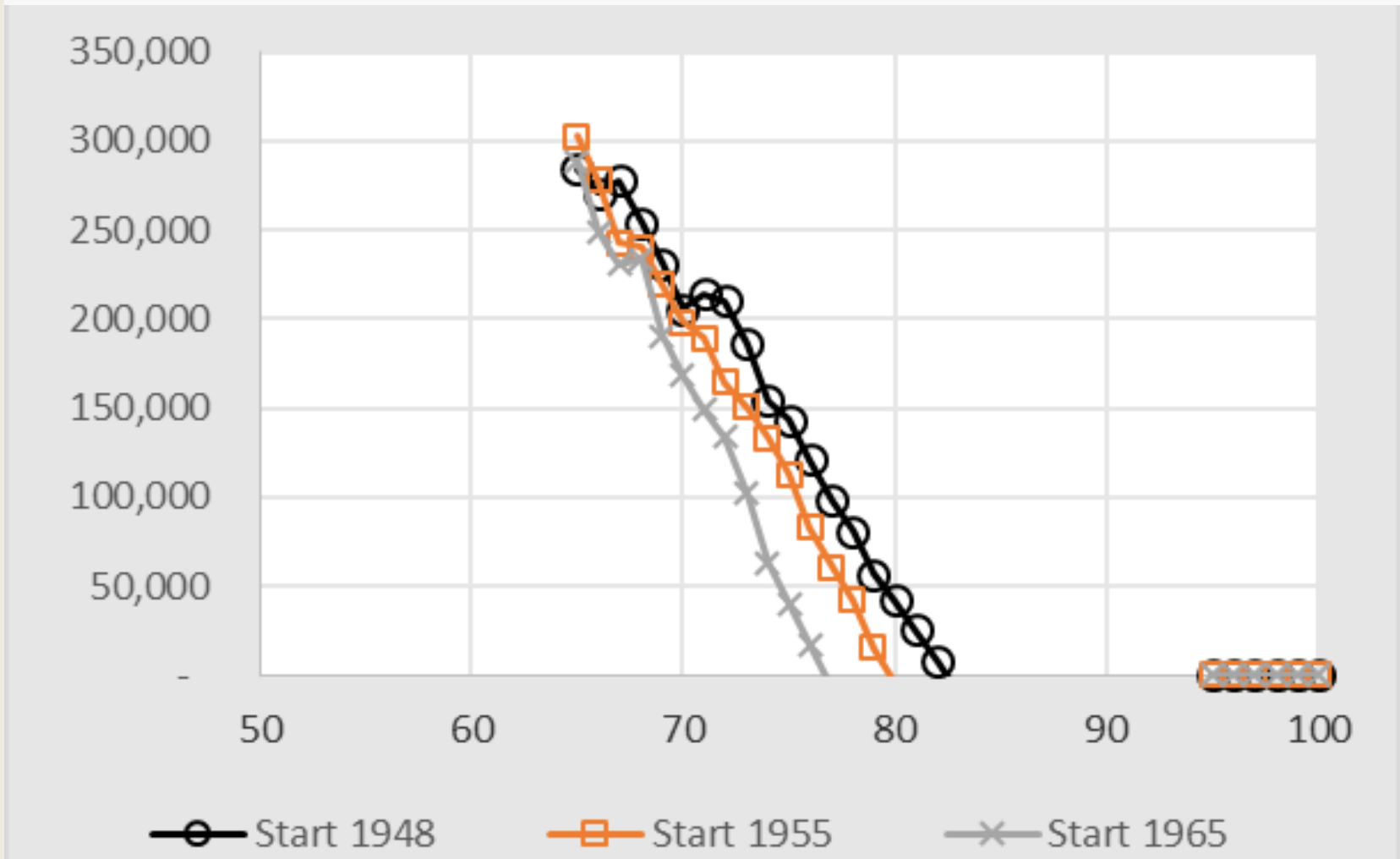
# Year-End Balances in today's \$s with 60% stocks.



Source: AnalyzeNow.com's free Retirement Investment Optimizer



# Year-End Balances in today's \$s with 30% stocks.



Source: AnalyzeNow.com's free Retirement Investment Optimizer



# Seek protection

- From depression
- From hyper inflation
- From unscrupulous advice
- From charities, solicitors
- From trustees, relatives?
- From hackers/spammers



# Escape can be **VERY** difficult

- **Time shares**
- **Partnerships**
- **Collectibles**
- **Your home**



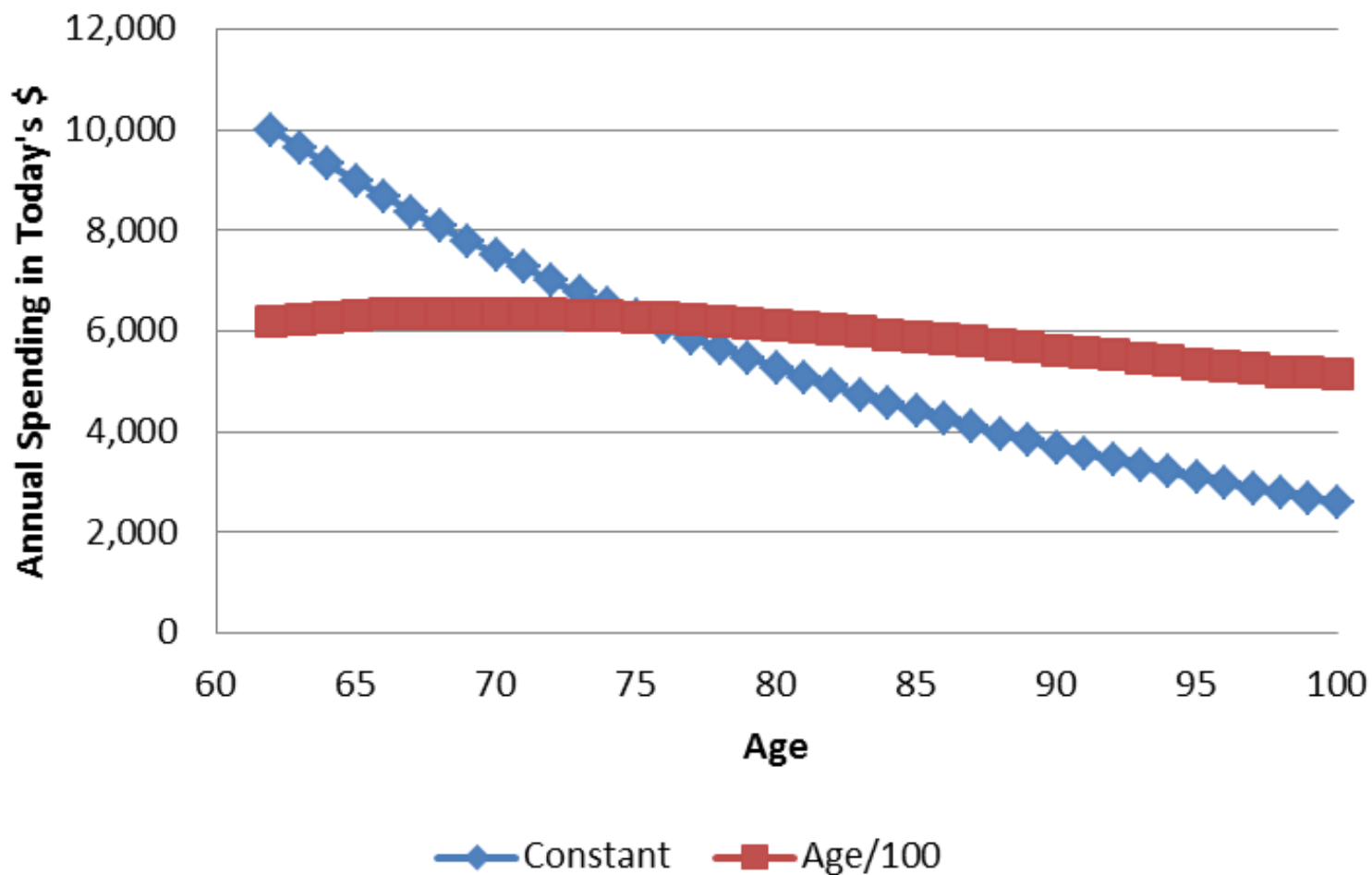


# Fixed-Income is never fixed in terms of purchasing power.

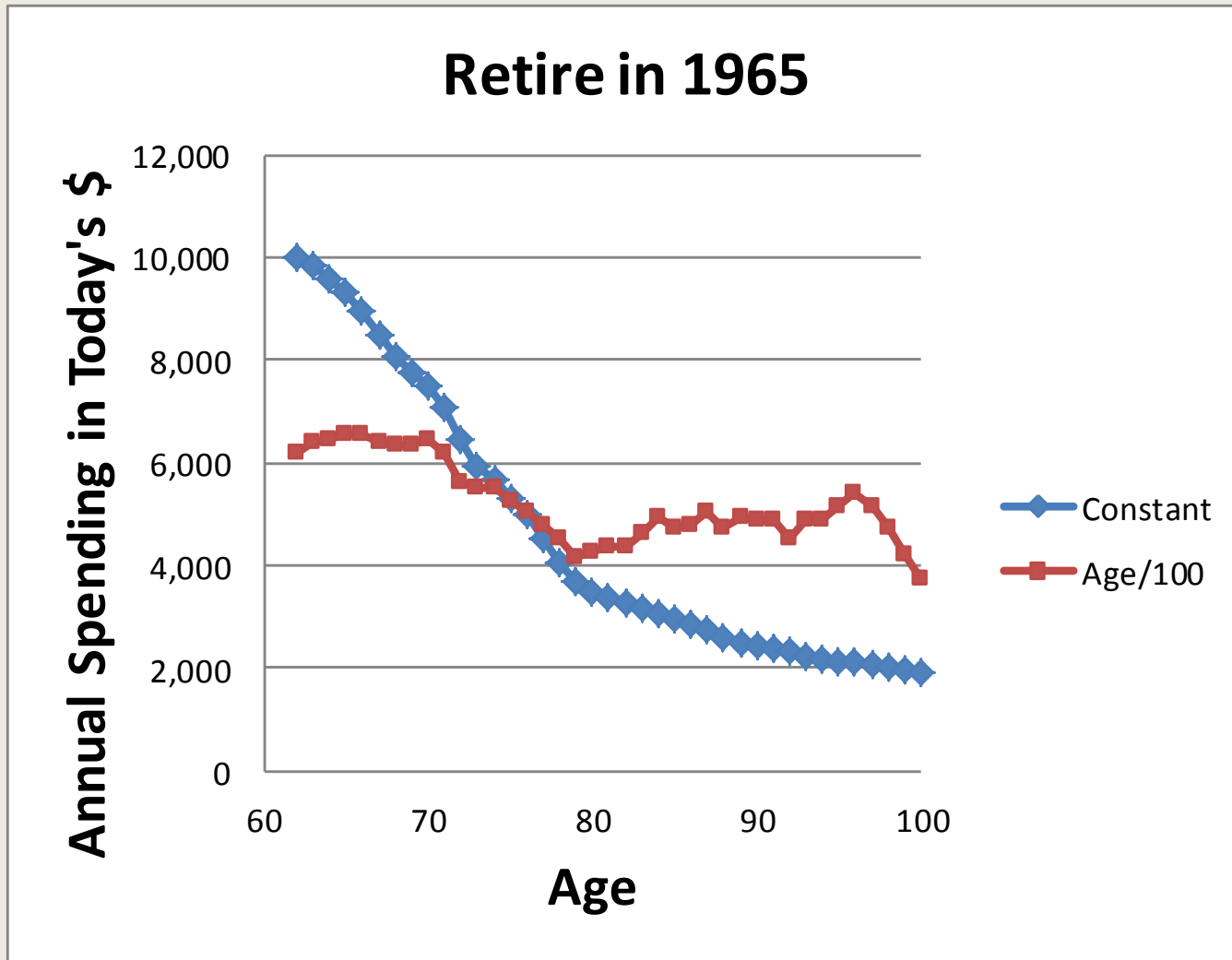
- Inflation destroys its value
- You can do things to help reduce the effects of inflation, but it involves some pain.
- Only spend a fraction of the fixed payments and save the rest to be drawn down later.
- **Spend only Pension Payment x Age / 100.**
- Example for 70 year old with \$1,000 pension payment: Spend only \$700. Save \$300.



## Fixed-Income with constant 3.5% Inflation, 6% Return



# Fixed-Income in one of the worst scenarios



Source: Professional Assistant from [www.analyzenow.com](http://www.analyzenow.com).

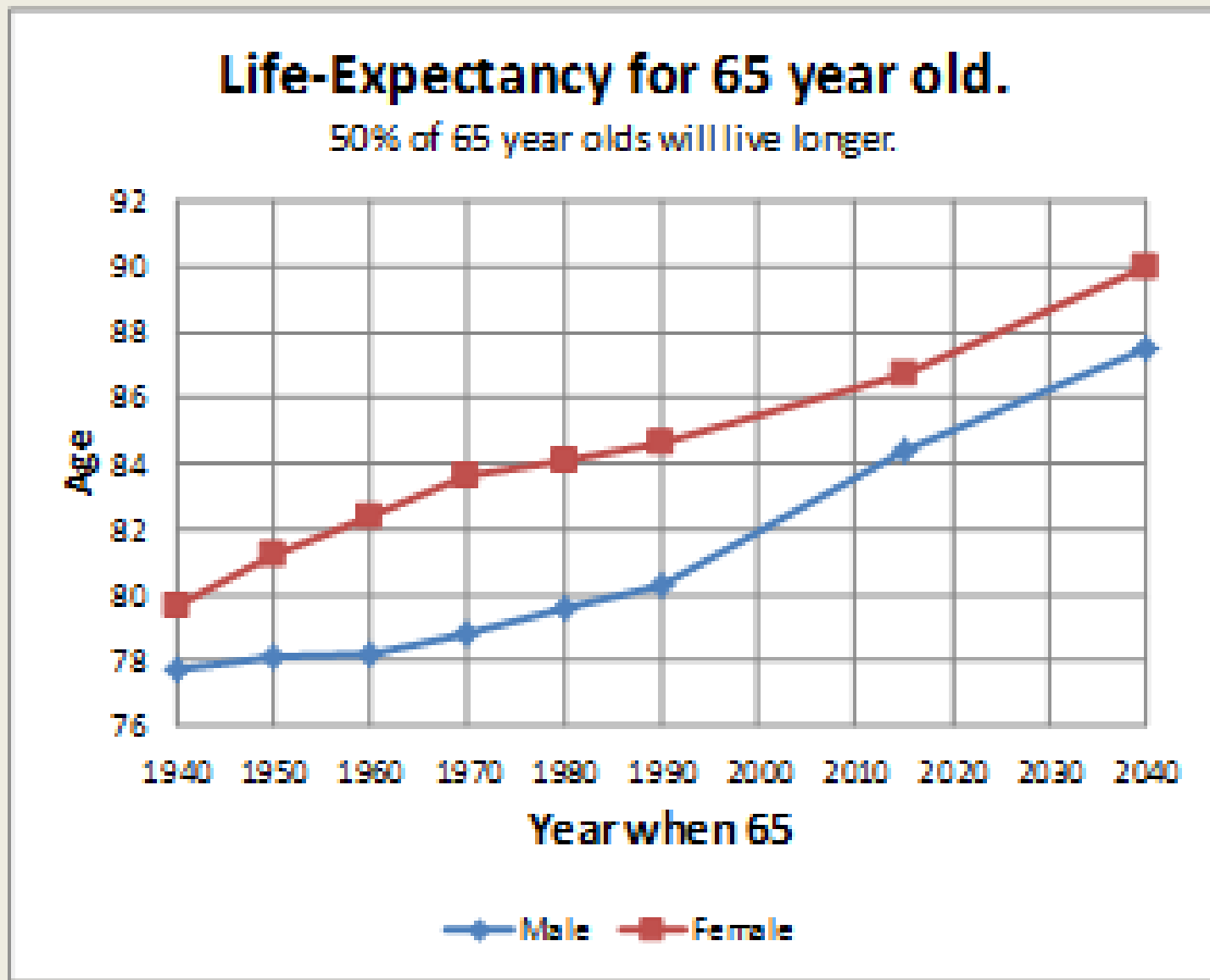


# Longevity Annuities

- How long do you think you will live?



# 50% of people will outlive life-expectancy.



Source: Data from [www.ssa.gov](http://www.ssa.gov). 2040 estimate by H. K. Hebel



# Do-it-yourself longevity insurance with \$100,000 to invest at 65 with payments beginning at 85.

- NY Life fixed annual payments of **\$59,000** for a man and **\$44,000** for a woman.
- About half of 85 years olds will then be dead.
- **The insurer pays nothing after death.**
- An 85 year old man has a life-expectancy of 6 years and a woman 7 years.
- If you can make 6% return on \$100,000 at 65, would have \$320k at 85. You **or your heirs** could draw **\$65,000** for 6 years or **\$44,000** for 10 years starting at 85.
- <http://www.marketwatch.com/story/investments-that-help-retirees-maximize-income-2015-05-18>





# Annuity Contracts

- Depend on sex, age, joint life, current interest rate, guaranteed period, possible inflation adjustment, and insurer.
- Joint life annuity payments are a fraction of single person annuities, e.g., 75% +/-.
- Quotes vary daily. Quotes are significantly different in different years.
- Must do a personalized analysis when ready.
- Read the small print!



**Buy annuity  
to pay when 80?**



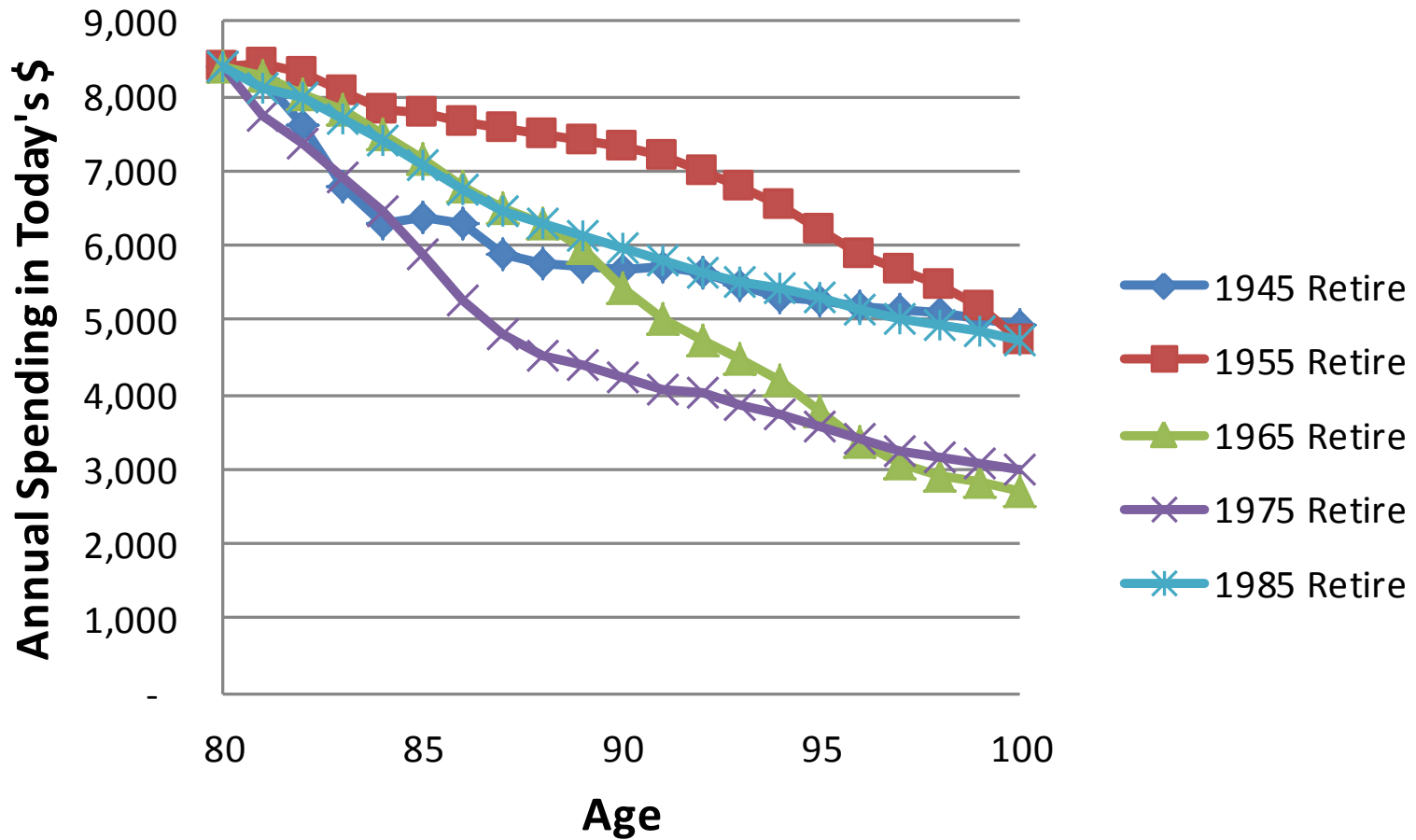


# Warning!!!!

**Read the small print in any insurance product—especially a complex one.**



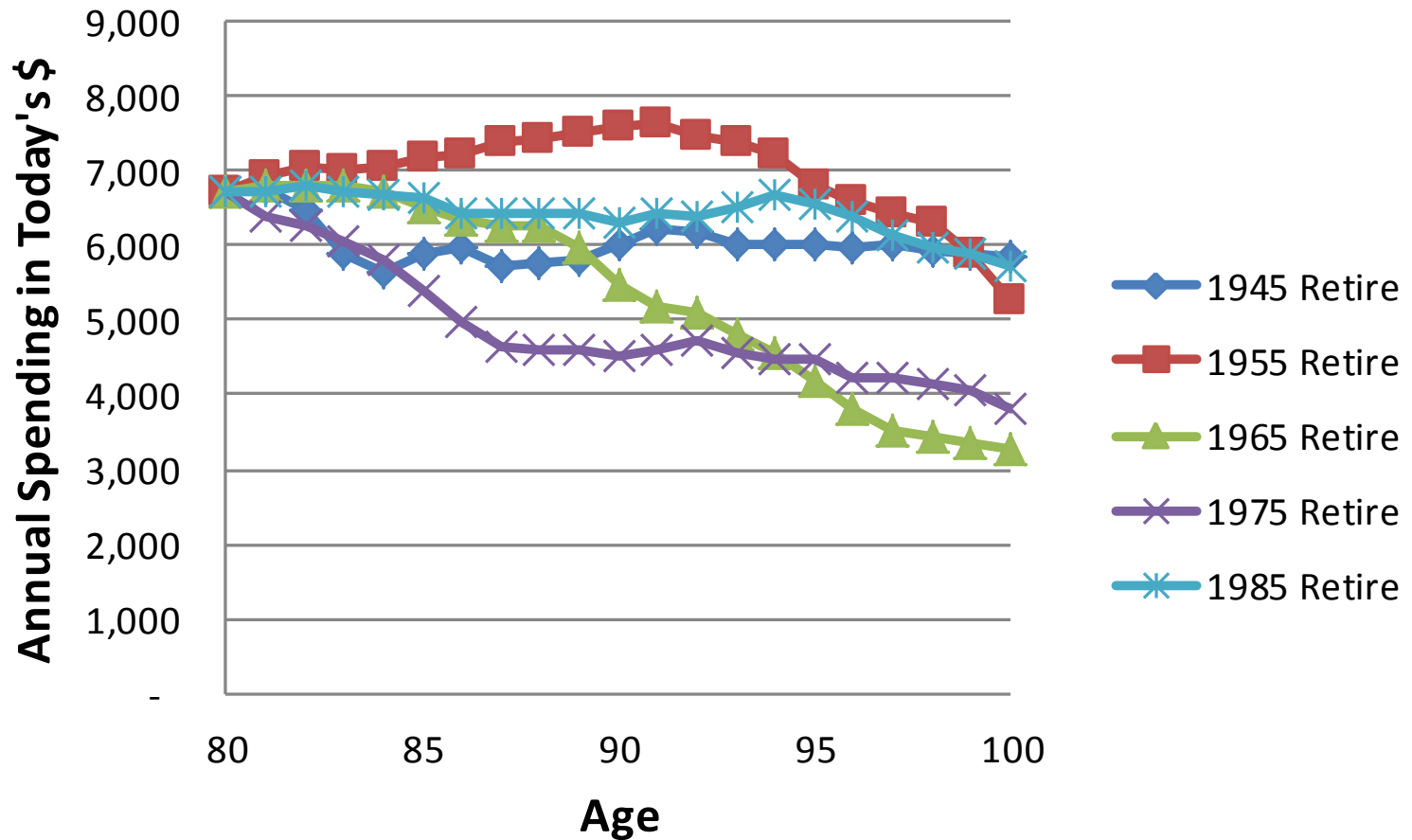
## 80 year old, \$700/month annuity and spending all of it



Source: Professional Assistant from [www.analyzenow.com](http://www.analyzenow.com).



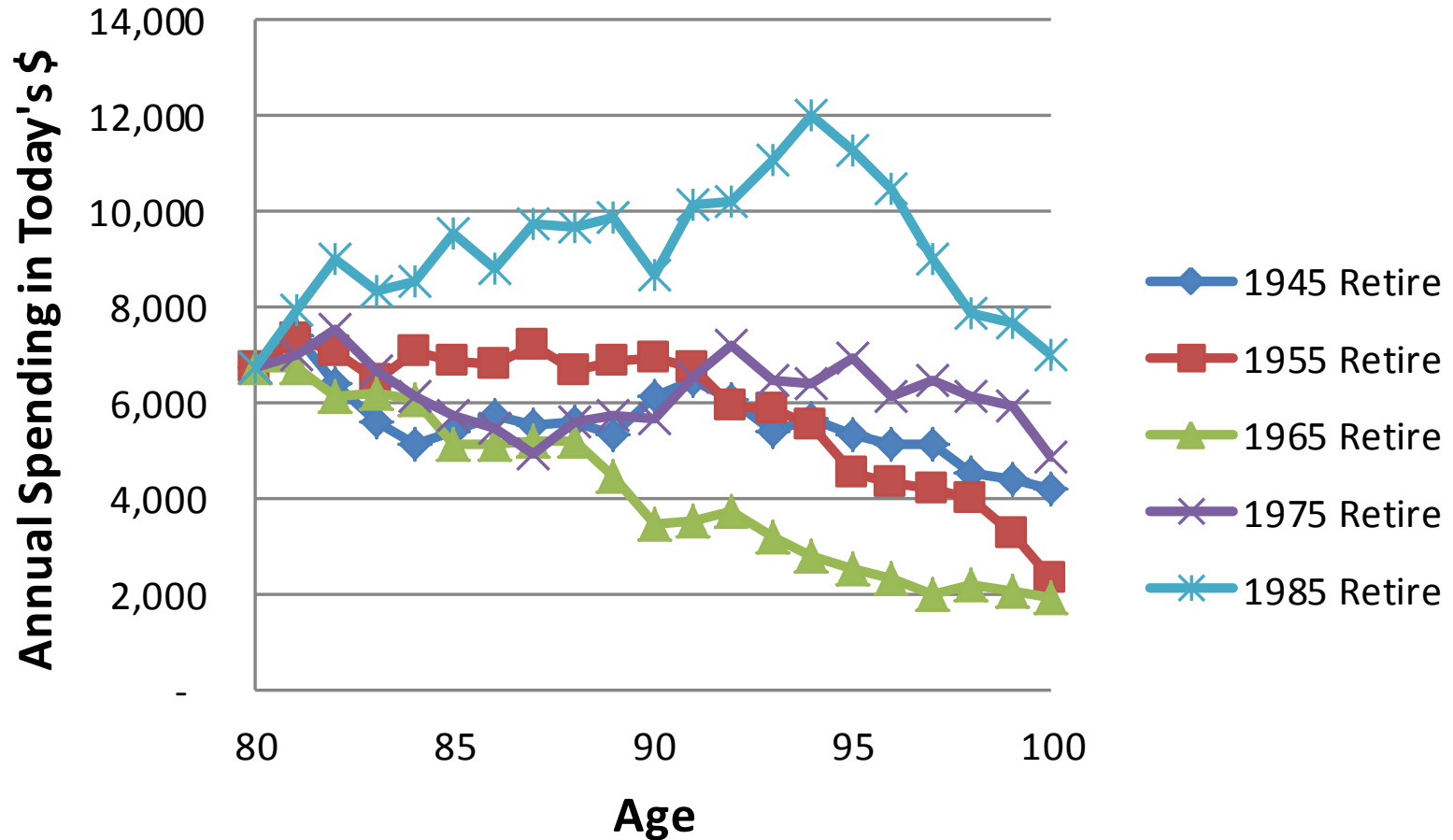
## 80 year old, \$700/month annuity and spend Age/100



Source: Professional Assistant from [www.analyzenow.com](http://www.analyzenow.com).



## 80 year old using planner for RMD life with 40% stock and 1.1% costs



Source: Professional Assistant from [www.analyzenow.com](http://www.analyzenow.com).





# Consider Alternatives

- Longevity (deferred) annuity with your choice of investments.
- Lump sum longevity annuity.
- Save separate funds to buy immediate annuity when elderly—may be the best.
- Count on using a professional
- or do-it-yourself managed portfolio with comprehensive planning analysis.



**Better yet!**  
**Delay Social Security**

**It's the best longevity  
insurance you can buy!**



# Social Security Options

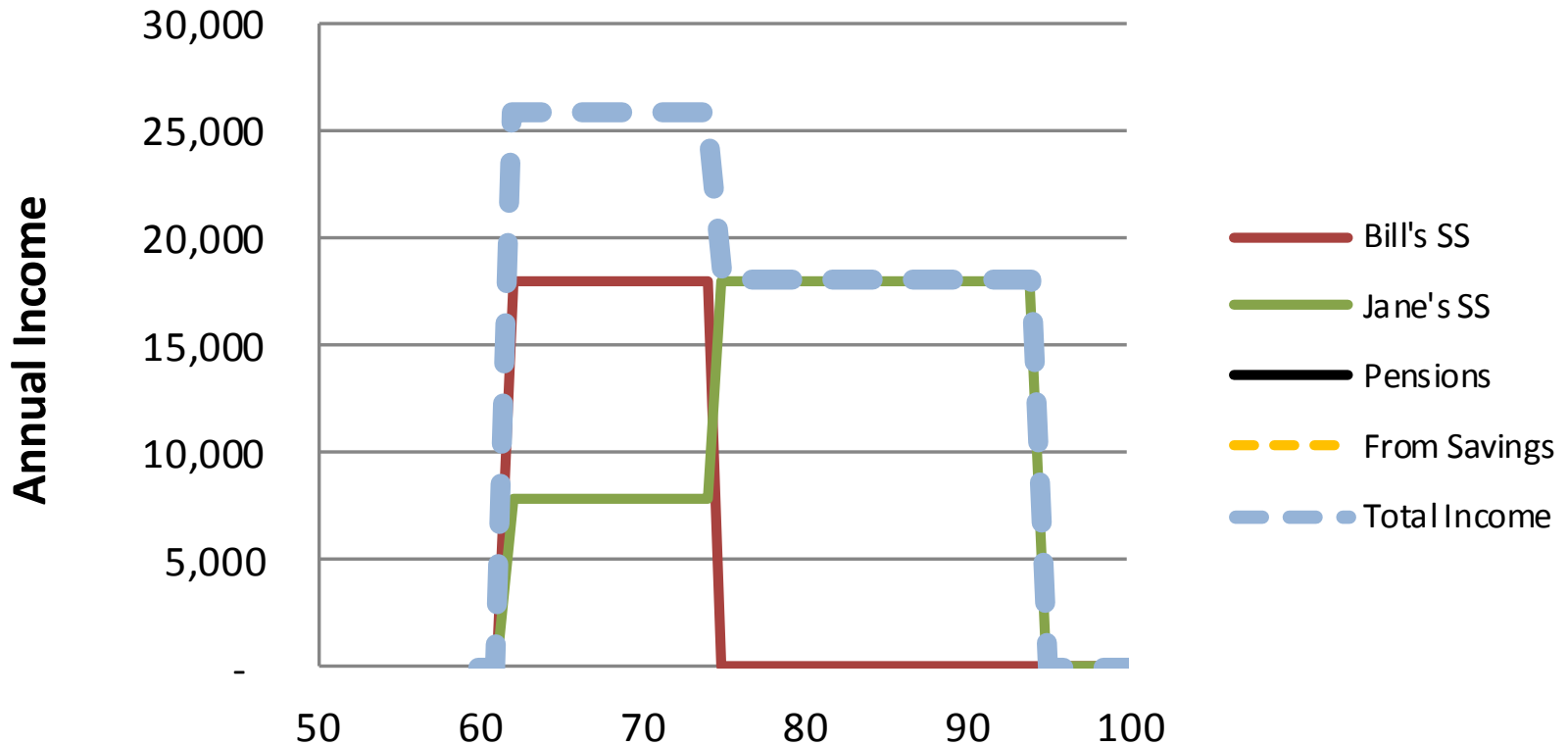
not always easy to select

- Start early
- Delays
- Repay & start later—now only 1 year
- Suspend
- File and suspend
- File a restricted application
- Health & Medicare need consideration



# Starting Social Security at 62

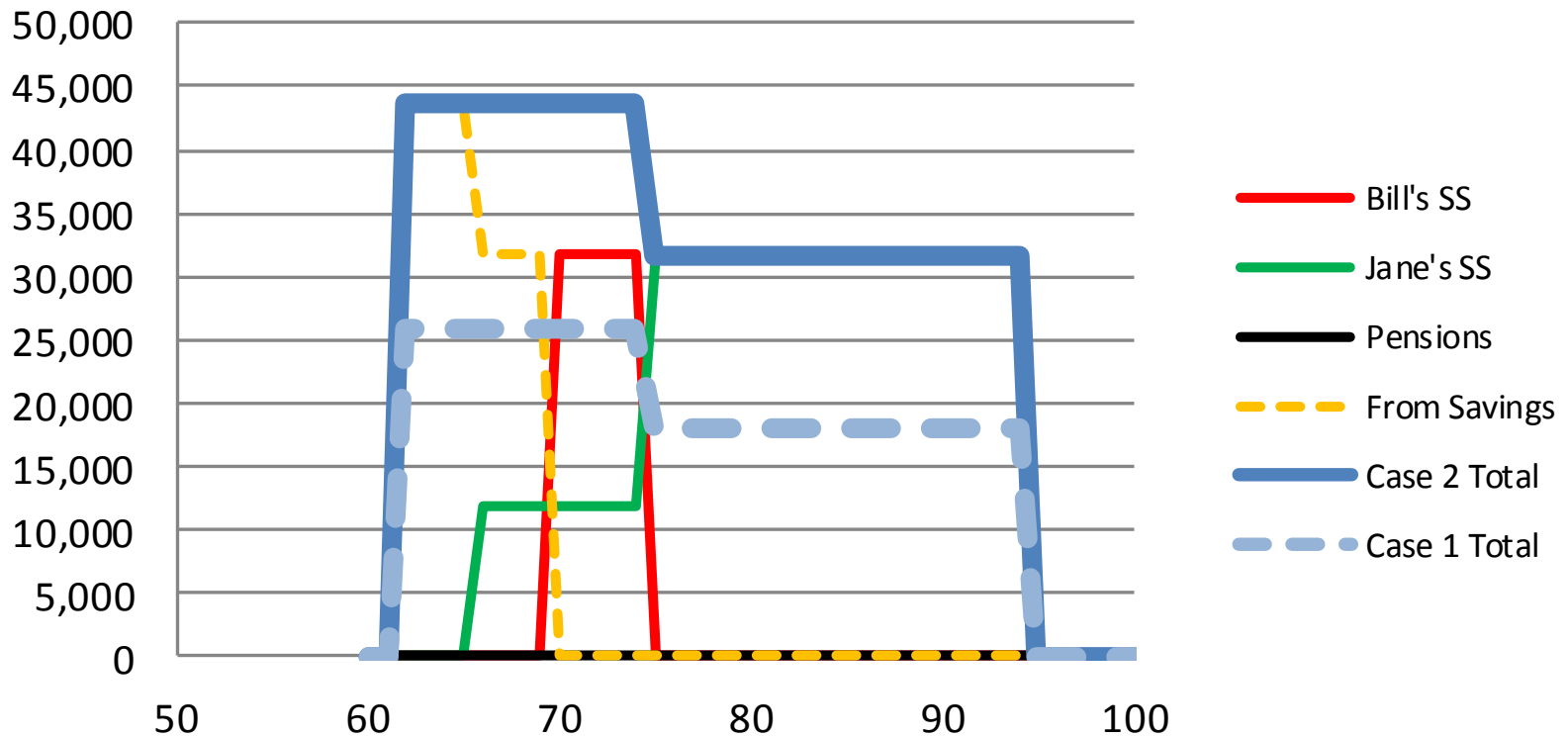
**Bill and Jane start Social Security at 62.  
Bill Dies at 75 and Jane at 95.**





# A better alternative

Jane starts at 66, Bill files & suspends at 66. Resumes at 70.



Source: [www.analyzenow.com](http://www.analyzenow.com), Strategic Social Security Planner



# In higher tax brackets?

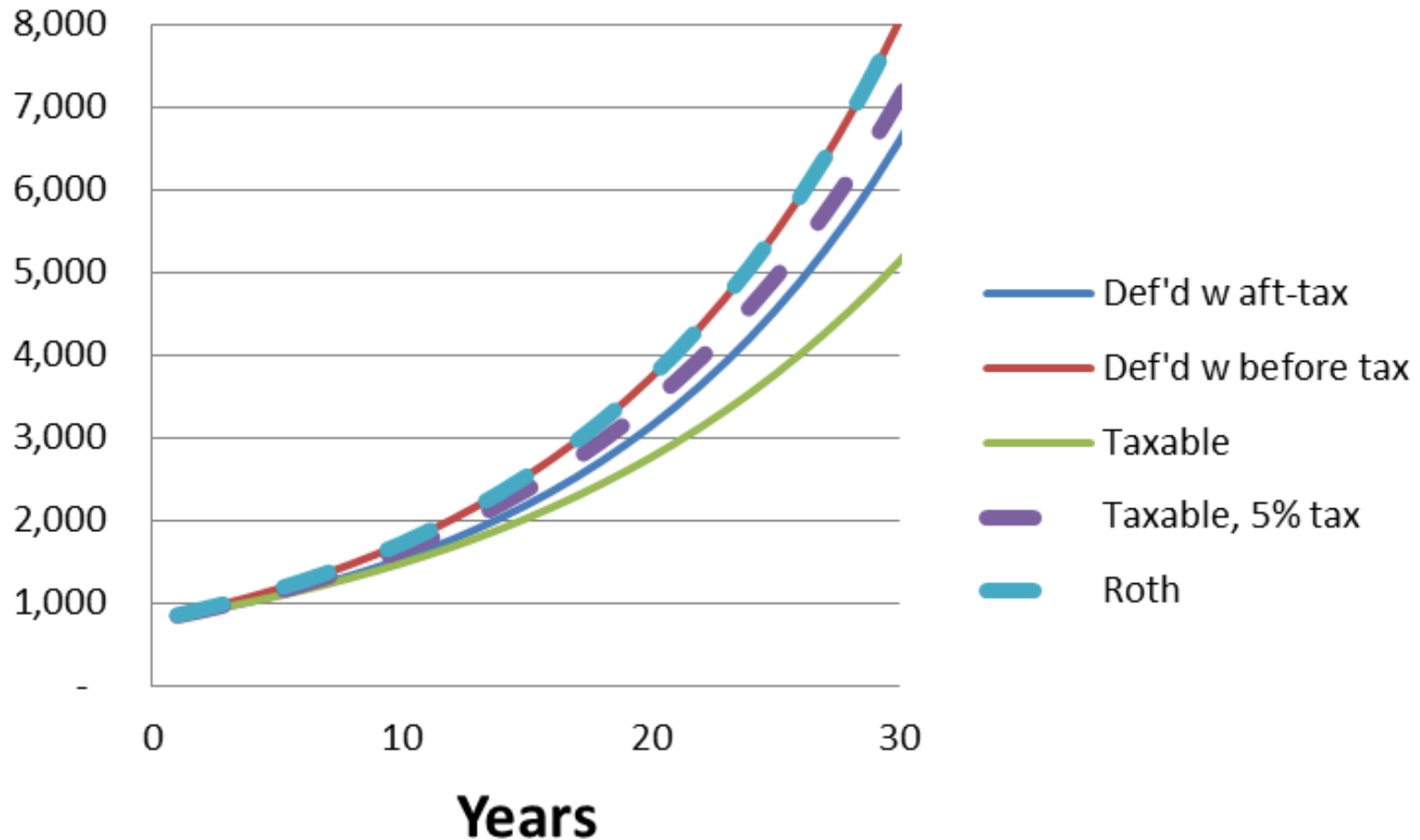
Take advantage of tax breaks:

- Strategic allocations
- Roths for TIPS, stocks, REITs
- Municipal bonds held to maturity
- I Bonds for deferral/inflation ([troublesome site](#))
- Tax-Managed Funds
- Mark-up on death for survivor/heirs
- 1031 and 1035 exchanges
- Insurance products, trusts
- Donor Advised Funds for charitable growth



# Pay taxes now or later?

## Growth of \$1,000, 20% tax, 8% return



# Often lower taxes if draw from

- Taxable investments first
- Deferred-tax investments next
- Tax-exempt investments last
- BUT, there are many exceptions:
  - Emergency fund liquidity
  - Highly appreciated securities for heirs
  - Irreplaceable investments
  - Convert to Roth



# Wise portfolio

- Liquidity for emergencies and large purchases
- Significant tax-exempt or tax-deferred
- Some securities less vulnerable to inflation
- Some securities less vulnerable to depression
- Insurance products in highly rated companies
- Diversified and escape possible
- And, of course, allocate & low cost sources
- CFP for second opinion.



# **Thoughtful Financial Planning!**

# **Key to long-range planning**

- **Always remember: The future will not be like the past.**
- **Compare alternatives in different situations.**

# Compare, compare, compare!

		Things you can control:			
		Spending or Saving	Investment Choices	Retire Age or Part-Time Work	Social Security Alternatives
No Control	Employee Benefits				
	Economic Factors				
	Death age(s)				
	Financial Surprises				

Example: **Compare** spending amounts in different scenarios.





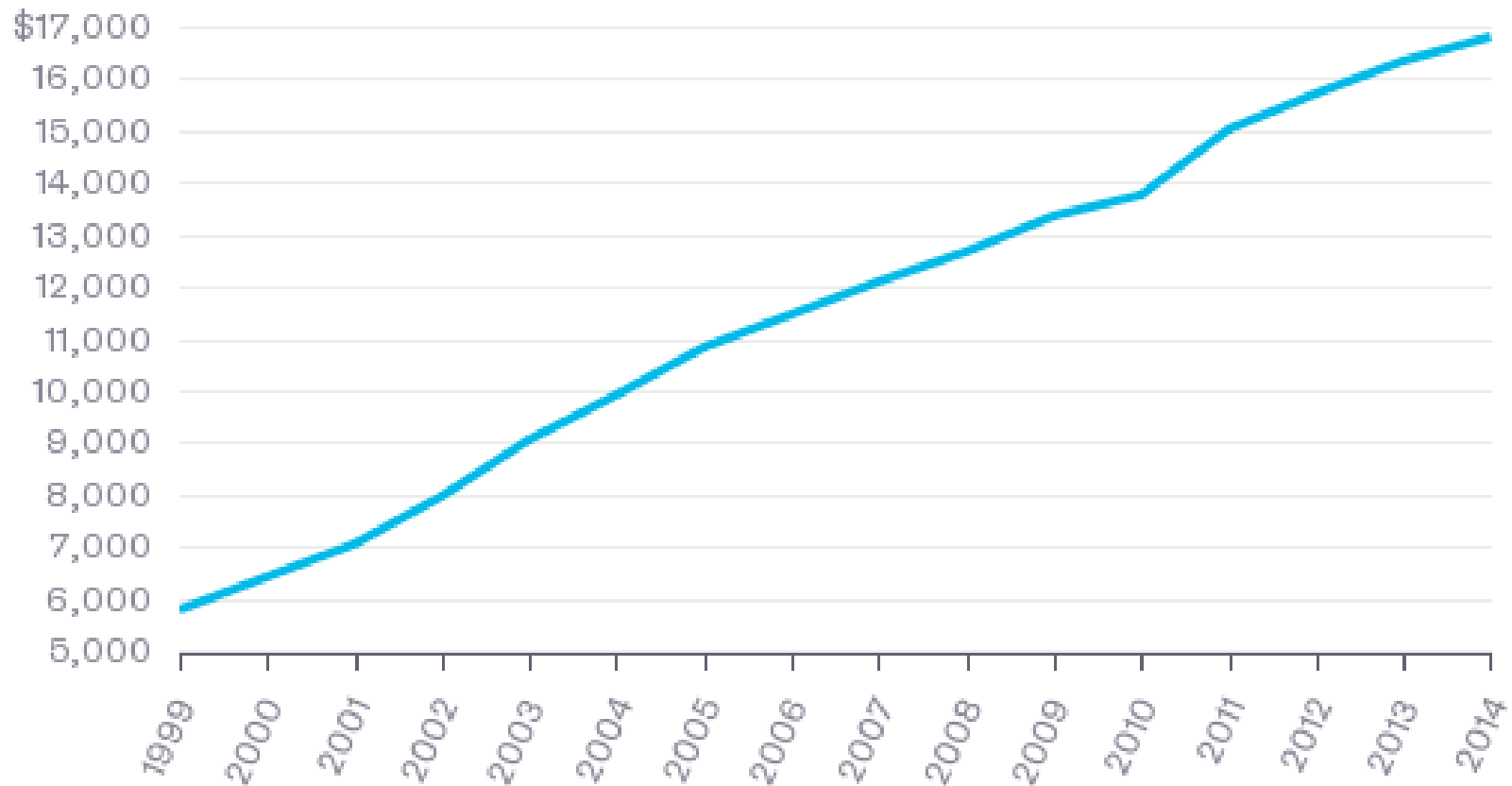
# Be wary of Monte Carlo

- We used Monte Carlo analysis in our weapons optimization when I worked.
- Uses data from the past—and can be misleading for retirement planning.
- Truncated distributions by clipping tails
- Using Monte Carlo, Moshe Milevsky of York University advocated all stock portfolios for retirees before 2008.
- Several years later he withdrew the paper from his website!
- [Planning Conclusions](#)



# Looking for Your Raise? Your Health Plan Took It

Average premiums for employer-based family coverage, by year



Source: Kaiser Family Foundation,  
2014 Employer Health Benefits Survey

**BloombergView**

<http://www.bloombergview.com/articles/2015-05-13/obamacare-can-work-better-for-the-middle-class>





# Want savings to last a lifetime?

- Total savings
  - Less emergency reserves
  - Less large known future expenses
  - Less debts
- Net left for years of retirement withdrawals
- Divide by RMD factor to get this year's savings withdrawals for annual expenses and taxes. (Can also pay debts & large known future expenses because accounted for those.)
- If too different from last year's annual withdrawal, then add  $\frac{1}{4}$  of last year's annual withdrawal increased by inflation to  $\frac{3}{4}$  of the annual withdrawal calculated above.
- BUT using saving to delay Social Security may be better





**“I’m not financially prepared to live to 100.  
Can I have a second opinion?”**

# Most important factor is how long you may live.

## Life-Expectancy

70	80	90	Your current age
14.1	8.1	4.0	SSA, Male
16.3	9.6	4.8	SSA, Female
17.0	10.2	5.5	RMD, Single if inherited
27.4	18.7	11.4	RMD, Orig. owner, spouse < 10 yrs
21.8	13.8	7.8	RMD, Inherited joint & last, same age
27.4	18.7	11.4	RMD, Inherited, spouse 10 years younger
Depends on smkg, wt, parents			<a href="http://www.LivingTo100.com">www.LivingTo100.com</a> and others



# There are better ways to plan:

- Limited applicability:
  - 4% rule (Open ended, only savings)
  - RMD (Conservative, only savings)
- Better: Planner (Requires CFP or computer. Account for real estate, Social Security, pension, special events, debts, survivor benefits, LTC)
- Best: Autopilot (3/4 Planner + 1/4 Last year's plan adjusted for last year's inflation, LTC)

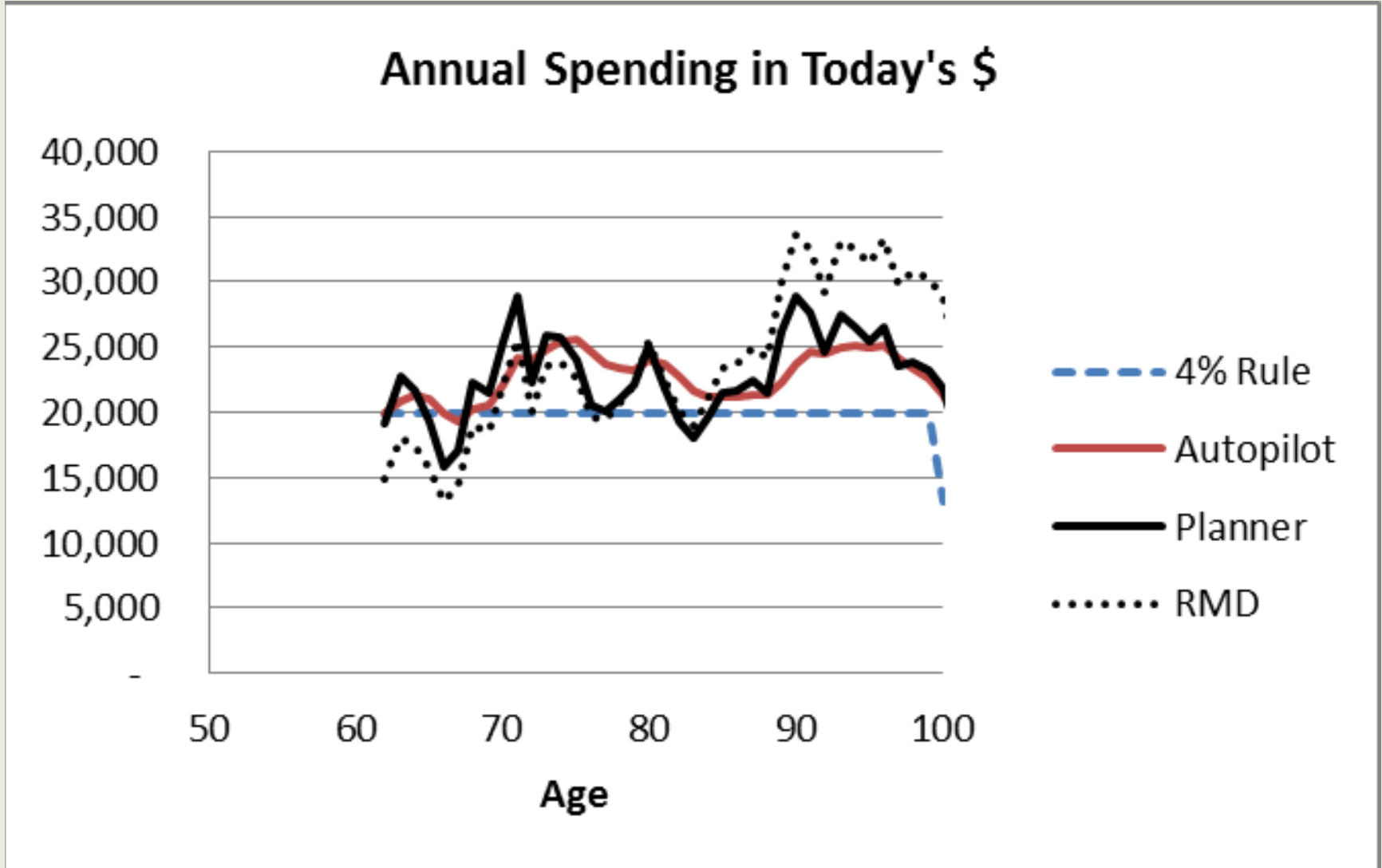


# Assumptions for examples

- 40% S&P 500 stock allocation
- 50% AAA Corporate bonds
- 10% Short-term treasuries
- 0.2% Costs
- \$500,000 initial balance



**Fig. 1. Retire in 1928 before the Great Depression.**



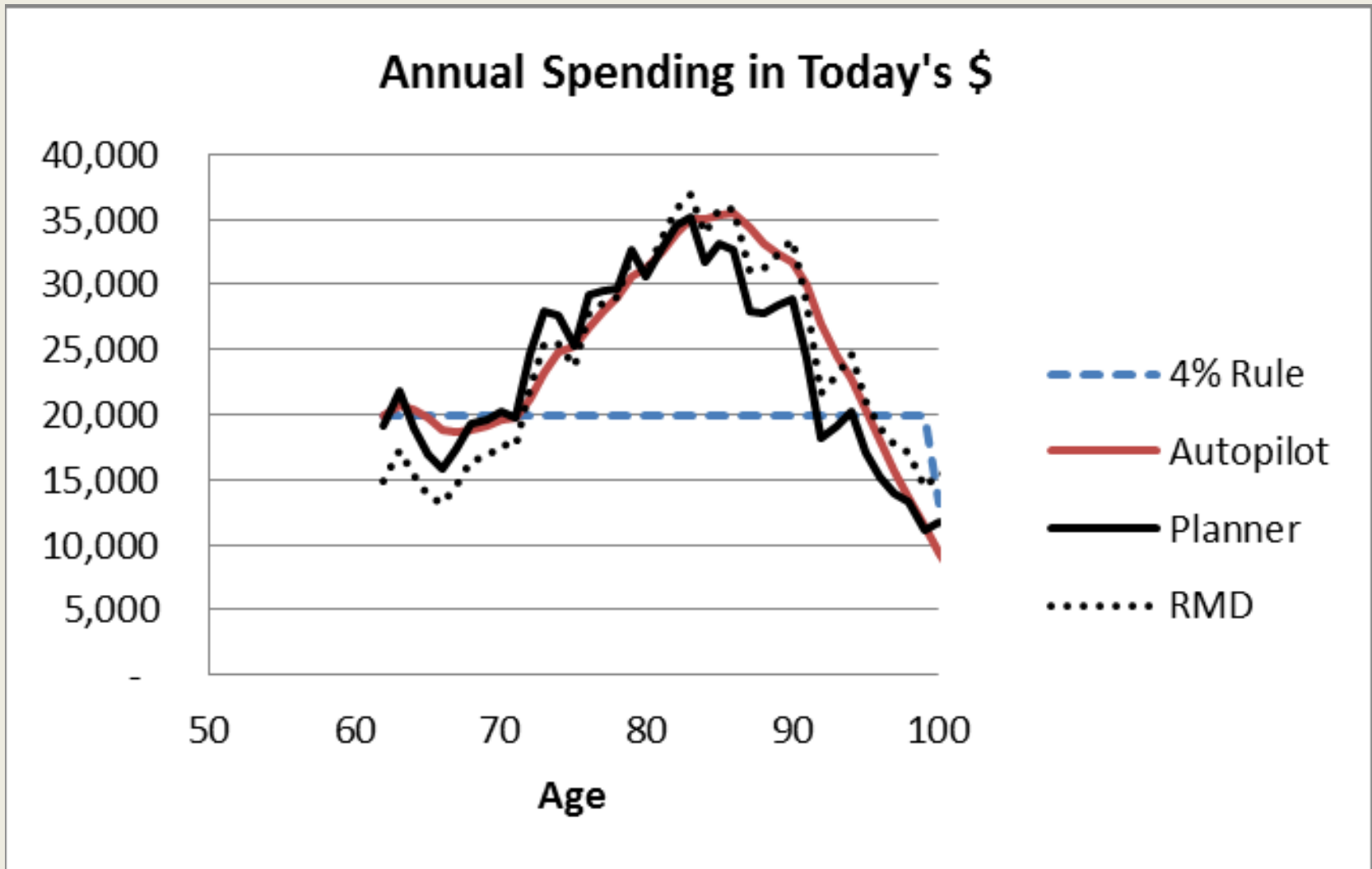
Source: Professional Assistant with Autopilot from AnalyzeNow.com.







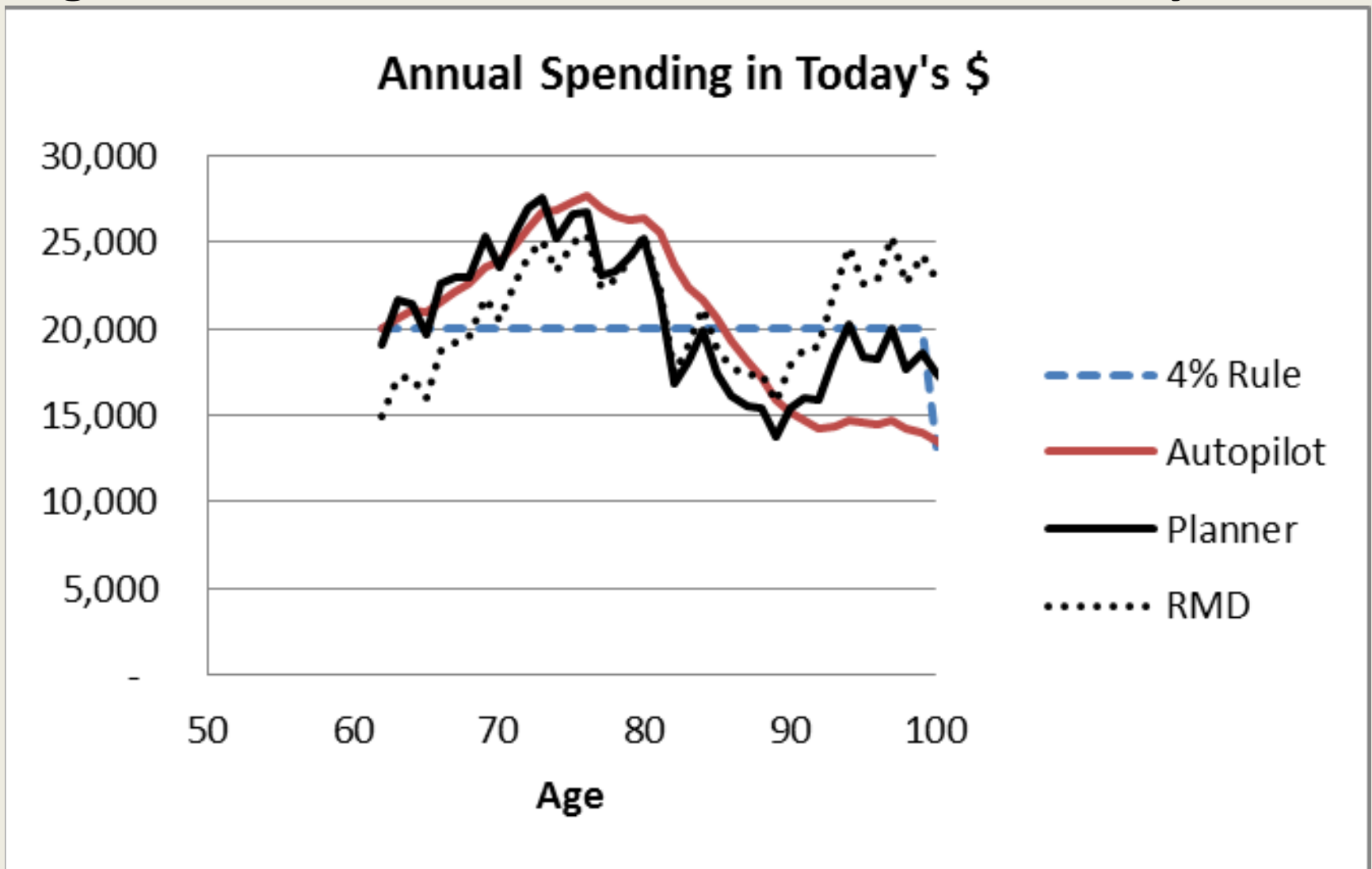
**Fig. 2. Retire in 1945 followed by booming economy.**



Source: Professional Assistant with Autopilot from AnalyzeNow.com.

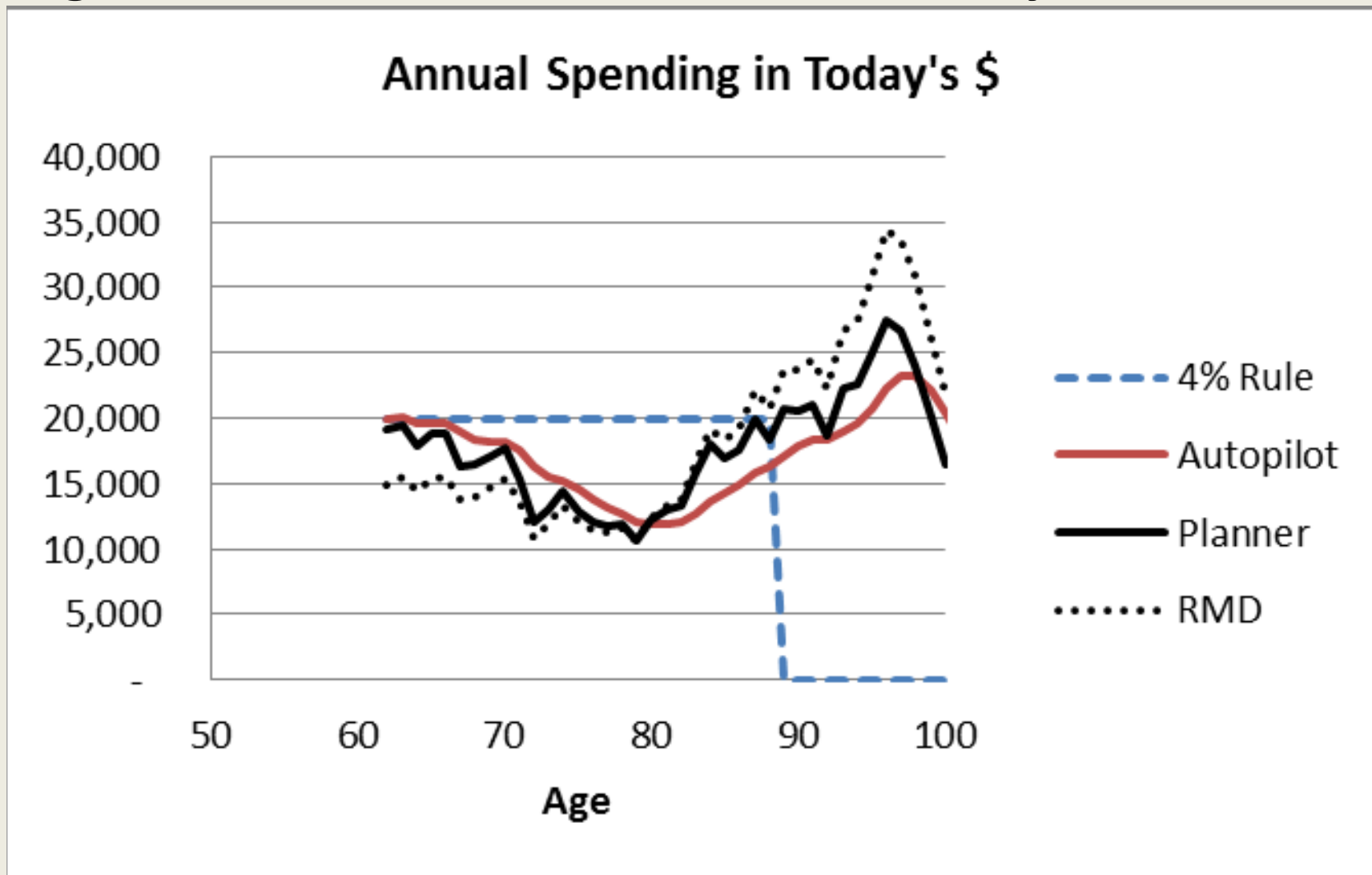


**Fig. 3. Retire in 1955. Good times followed by bad.**



Source: Professional Assistant with Autopilot from AnalyzeNow.com.

**Fig. 4. Retire in 1965, one of the worst years to retire.**



Source: Professional Assistant with Autopilot from AnalyzeNow.com.



# What's in a good planning program?

- Reminder to subtract emergency fund
- Consider effects of allocations, costs
- Provide for real estate, annuity payments
- Unusual escalation of health-care costs
- Social Security growth less than inflation
- Income tax provisions
- **Debts**
- Provide for future singular events & LTC
- Death ages and survivor's benefits
- Simultaneous comparisons




# Thoughtful planning includes:

- Comparisons of alternatives you can control
- Comparisons of alternatives you can't control
- Conservative life-expectancies, economic factors
- Considerations for health-care & LTC
- Known future events
- Comprehensive planning (Computer/CFP)
- Death book
- [Planning Conclusions](#)



**Get ready for  
Death**



Adults are never too young to think about their survivors.

- Will survivors need financial help?
- Will they inherit something that's manageable?
- Or will they need battery of lawyers, accountants, planners, courts, expert testimonies, shirttail relatives, etc.?
- Create a death book to help
- Review key elements with children, executor.





# Estate & Inheritance Taxes

- If assets over \$2 million, understand state estate taxes and get estate attorney's advice.
- WA estate tax varies from 10% to 20%.
- If assets over \$5 million, get estate attorney's advice. You can avoid Federal estate tax if couple assets under \$10 million.
- Federal estate tax rate is 40%.
- Will Bill Gates lose 60% of assets at death?



# Death Book Contents

- Legal documents (Will, living will, power of attorney, revocable or testamentary trusts, etc.)
- Financial condition and survivor benefits
- Time share rules & reservations
- Personal distributions
- Location, location, location
- Death instructions (funeral, burial, obituary)
- Home maintenance instructions
- Key helpers, addresses, phones, email addresses
- Passwords



# Planning Conclusions

- Future returns will not be the same as the past!
- Do comprehensive planning and/or use CFP
- Plan annually setting aside **emergency funds**
- Compare alternatives, **allocate & rebalance.**
- Maximize social security
- Bias savings/spending considering future returns, inflation, taxes & events
- Bias investments considering risk & liquidity
- **Seek low investment costs and tax drains**
- A **“Death Book”** really helps heirs & executor



[www.analyzenow.com](http://www.analyzenow.com)  
for Articles & Programs



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