Retire SMART: A Simple Guide to Retirement

Provided to you by:

Jeff Ackler, SmartVestor Pro and

CERTIFIED FINANCIAL PLANNER™ Professional

Retire SMART: A Simple Guide to Retirement

Written by Financial Educators

Provided to you by

Jeff Ackler, SmartVestor Pro and
CERTIFIED FINANCIAL PLANNER™ Professional

Securities and Advisory services offered through LPL Financial. A registered investment advisor. Member FINRA & SIPC. The SmartVestor program is a directory of investment professionals. Neither Dave Ramsey nor SmartVestor are affiliates of Wealth Realm, LLC or LPL.

Introduction

While many Americans have spent years planning for their retirements, a great many of them have made a basic discovery once they reach that plateau. Namely, that there are some issues that simple math and time will not necessarily resolve. If you are near retirement or have retired, listed below are several common mistakes that occur in the arena of financial planning for retirement that you can plan now to avoid. The remainder of this booklet will explain potential ways to deal with these issues.

Common Retirement Financial Mistakes

Underestimating your life expectancy: A generation ago, it was probably safe to assume that men would live to approximately age 70, and women to perhaps 75. But advances in medical science have pushed those ages up at least fifteen to twenty years. Realistic financial planning for seniors should probably assume that at least one spouse will live to age 90 or beyond.[1] To make sure your money lasts, you may need to annuitize your assets to create a sufficient income (explained later).

Are you thinking that you'll be able to retire when you want? In financial planning for retirement, many workers plan on working into their 70s—until illness, disability, or mere fatigue forces them to reconsider. If you plan on working past the normal retirement age, do not count on the extra money earned to pay for essential expenses. Sound financial planning for senior years would have you save a sufficient nest egg by age 65 in case health reasons prohibit you from working longer.

Neglecting to adequately factor in health care costs: Failure to do this can be disastrous, especially if long-term care treatment is needed. And don't count on the government to pick up the bill for you either. Make certain that your health coverage is adequate and that you have a plan to cover other elder care needs. This is the #1 error in financial planning for seniors, as it's estimated that half of the bankruptcy in the US is caused by health failures and the accompanying costs.[2]

Settling for low returns: Don't let your fear of risking principal leave you with a guarantee of running out of money prematurely. Sensible asset allocation may lower the risks of investing-including the chance that your money will not grow enough to meet your needs. Although asset allocation

may reduce risk, it does not insure a profit or guarantee against loss. But if you insist on keeping money in three month CDs and T-bills as many seniors do, your earnings will be so low that you increase the likelihood of running out of money. Sound financial planning for seniors means that your investment horizon should match your actuarial life expectancy. In simple English, if you are age 70 with an expected life expectancy of 16 more years, your investment portfolio should be constructed to serve you for 16 years, not 6 months.

Failure to monitor or control your distribution rate: Your financial advisor should be able to run some basic calculations based on the size and allocation of your portfolio that show a safe rate of withdrawal. A general rule of thumb is somewhere between three and five percent per year, depending on your portfolio's allocation between equity and fixed income investments. We have seen some financial planning disasters when people spend beyond this level.

Refusing to get a fresh perspective: No matter how effective your advisor or plan is, getting a second opinion on it will never hurt. Different advisors have different areas of expertise, such as taxes or mutual funds. Therefore, having a different set of eyes review your situation may provide insights that you would otherwise miss.

<u>The following articles provide guidance on ways to potentially address these issues.</u>

---

[1]For a married couple where both have reached age 65, there is a 39% chance that at least one will live to age 90 www.kitces.com/wp-content/.../09/Joint_Life_Mortality_Calculator.xls

[2]The American Journal of Medicine: Medical Bankruptcy in the United States, 2007: Results of a National Study. Five states found that medical problems contributed to at least 46.2% of all bankruptcies.

Generating Retirement Income

Financial planning prior to retirement is focused on asset accumulation, tax minimization, and maintaining a budget that allows for maximum savings. Retirement financial planning, however, is focused on these different objectives: maintaining an adequate income without salary or wages, maximizing pension and social security, having adequate health and long-term care protection and minimizing financial risk.

You can't know for sure if you have adequate resources until you do some number work. If you find this nitty gritty retirement financial planning stretching your patience, then hire a retirement planner.

Here are the steps:

1. Estimate your retirement spending needs: housing (including new furniture and updating), food (including dining out), insurance (including long-term care), personal expenses, vacations, entertainment, utilities, transportation, taxes (income and property), etc. Add to this list anything that applies to your desired lifestyle. Add up the total and now you know how much you need, which is Step 1 of your retirement financial planning. Let's say this figure is $50,000.
2. Next, you want to see how much you have and create a retirement income plan. Add your sources of retirement income including social security, pensions, and annuities. An example follows but please note that the illustration is hypothetical and not indicative of the performance of any particular product. From any savings such as IRAs and 401k and other investment accounts, assume a withdrawal rate of 5%. So if you have a nest egg of $500,000, assume that you can take 5% annually and the nest egg should be fairly safe at least for 30 years.[3] Note that just to maintain your standard of living, you need to always leave some earnings behind in your nest egg to account for inflation. An item that costs you $10,000 this year will cost you $10,300 next year. Even if you don't care about having anything left and want to spend more, you don't have much wiggle room. For example, if your nest egg were to earn a constant 6% annually and you withdraw 8% annually of your beginning balance, you exhaust the fund in 24 years (online calculator from CalcXML http://www.calcxml.com/calculators/how-long-will-my-money-last). You could easily outlive your money and that's why it's important to stick to the retirement financial planning 5% rule
3. Compare your total sources of income from Step 2 and your expenses from Step 1. If you have excess income, congratulations–you've done good retirement planning.
4. If you have a deficiency, you have a few options:

- Adjust your lifestyle and spend less.
- Maintain your lifestyle, but move to a less expensive area of the country or out of the country.
- Work part time in retirement.
- Retire later—by working a couple more years, a $500,000 nest egg growing at 6% accumulates an additional $61,000 (6% x $500,000 compounded for 2 years = $61,000 Texas Instruments BA 54 or any financial calculator). That additional principal provides an additional $3,050 of spending money annually (assuming 5% annual retirement return x 61,000).

Note that later in life, say at age 75, you may switch your strategy and decide to "annuitize" some of your assets i.e. spend them down to zero and give yourself more income today. One way to annuitize your assets is with a life annuity, as payments will last as long as you do. (Get details from your financial or insurance advisor).

[3] Trinity Study: Sustainable Withdrawal Rates From Your Retirement Portfolio; Philip L. Cooley, Carl M. Hubbard and Daniel T. Walz 1998, updated 2010 http://wpfau.blogspot.com/2010/10/trinity-study-retirement-withdrawal.html

Retirement Income Sources[4]

Many retirees lack control over 50% or more of their retirement income. For example, if a retiree has income of $50,000 annually, and $30,000 comes from social security and employer pension, the retiree controls less than half of his retirement income – making those sources somewhat useless to discuss. So let's focus on the sources of retirement income you can control and how to boost them.

Let's work up the ladder of rates that you can get from guaranteed retirement income sources.

Bank Certificates of Deposit: Terms from three months to five years. Generally, the longer the term, the higher the rate. Interest is available monthly for a guaranteed retirement income or can compound. A one year CD is 1.29% at the highest paying bank as of 12/24/15.[5] After inflation and taxes, you actually lose money. Therefore, holding large sums for long periods in CDs is financially foolish.

Annuities: Guaranteed by the issuing insurance company, safest companies rated AAA by Standard and Poor's. Large companies like Prudential and New York Life actually lent money to the US Government during the depression. Use deferred annuities (paying 3.30%) [6] if you don't need the income or immediate annuities if you need the income. A 70 year old male can get $641/month for life on a $100,000 deposit (equal to 7.69% cash on cash return) [7]. Payments end at death and nothing is left. Some immediate annuities provide a feature for payments to heirs in case of early death, but the monthly payments will be less.

The above paragraph describes an immediate annuity—a one-time payment of a premium to an insurance company. In return, you receive payments for a specified term or for life. Under the life option, payments cease when you die. Note that immediate annuities may have fees or commutation charges and generally cannot be surrendered for value. Payments you receive are subject to IRS rules which consider each payment part principal and part interest. The payments are guaranteed by and subject to the claims-paying ability of the issuing insurance company.

Federally Backed Mortgage Notes: Although you've heard a lot in the news about Fannie Mae and Freddie Mac, the US government has backed their securities 100% – giving them AAA safety. The same goes for Ginnie Mae Securities. Your money is loaned for mortgages, and the government agency guarantees your investment – at 15 years, rates approximate 3.3%.[8] Actual term is uncertain as people can pay off their mortgages early. Income is monthly.

Corporate Bonds and Preferred Shares: These can be a reliable source of guaranteed retirement income from corporations. Again, for safety, buy those that are highly rated, at least A. Bonds pay interest twice annually, and preferred shares pay dividends quarterly.

---

[4] The tax issues and risk issues of the investment options mentioned in this section are as follows: bank certificate deposits are FDIC insured to $250,000 and interest is taxed as ordinary income. Annuities are backed by the claims paying ability of the issuing insurance company. The portion of the payment that IRS considers interest is taxed as ordinary income. There is a 10% penalty for withdrawals before age 59½. Federally-backed mortgage notes will fluctuate in value and have an implicit guarantee as to interest and terminal value by the federal government and interest is taxed as ordinary income. Municipal bonds will fluctuate in value, are guaranteed by the issuing municipality or issuing agency and interest is free from federal tax and may also be free from state tax if you are a resident of the state where the bond is issued. Corporate bonds and preferred shares are issued by public companies, will fluctuate in value and carry risk of loss. Interest on corporate bonds is taxed as ordinary income; dividends on preferred shares are generally taxed at the 15% rate. Mention of these securities does not constitute an offer to buy or sell.

[5] Bankrate.com 1 year CD for Synchrony Bank.

[6] Midland National Life 12/24/15 MNL Guarantee Ultimate 10 (200k).

[7] www.immediateannuities.com 12/24/15.

[8] Representative example 12/24/15: Federal Home Loan Mortgage Corporation 1/15/26, 4% coupon, http://www.mortgagenewsdaily.com

Municipal Bonds: A source of guaranteed retirement income from cities, states or municipal districts. Buy those rated AAA for best security. Income is paid twice annually. Or, for another idea of guaranteed retirement income, build a ladder of zero-coupon municipal bonds. Interest and principal is paid all at once at maturity. Example: male age 52 buys $75,000 face value of municipal bonds to mature starting at age 62, and for each year thereafter for 20 years, to provide $75,000 of tax free income annually. The cost today of each bond averages less than 50 cents per dollar of face value – yields up to 4.8% tax free currently.[9]

Dividend income from stocks and mutual funds can be an important and significant source of retirement income, however, it is not assured as corporations may change their common stock dividends at any time. If you own mutual funds, there are funds oriented toward paying a consistent dividend income and those that do not. Are you in the right funds? Similarly, there are value stocks that pay dividends averaging 3.7% [10], while many growth stocks pay no dividends at all. By your selection of stocks and funds, you control this important source of retirement income.

[9] Representative example: as of 12/24/15 MERCED CALIF UN HIGHSCH DIST GO REF BDS 0.00000% 08/01/2040SER. 2015 Rated AA, S&P https://fixedincome.fidelity.com/ftgw/fi/FILanding

[10] www.dogsofthedow.com, average yield of top 10 yielding stocks of the Dow Jones Industrial Average 12/24/15.

Protecting Your Assets

While everyone needs car, homeowners and health insurance, there are specific types of insurance that are very pertinent to seniors or retirees. These senior insurances are detailed below, and the failure to have any of these protections could be the difference between a comfortable retirement and years of heartache.

Life Insurance: While the common reason to get life insurance is to replace income for the family should we die and our income stops, seniors or retirees are not dependent on their labor for income. Therefore, it seems that senior life insurance would be superfluous. But life insurance for seniors has other uses to solve other problems, such as providing liquidity at death for a surviving spouse, ease of estate settlement and division, creating a pool of money for special needs – to create an estate and to pay estate taxes.

Health Insurance: No one should go without health insurance. However, senior health insurance is different in that private insurance is required in combination with government coverage. A typical senior health insurance program would include Medicare to cover 80% of health care costs and private insurance, or Medigap coverage, to cover the other 20%.

Funeral Insurance (burial insurance): While it's true that a funeral can easily cost $20,000, most people of any means have the financial resources to cover their funeral, so special insurance may not be necessary. However, it is an excellent idea to have a funeral program structured so that your heirs don't need to take on this burden at their greatest time of grief. It could make sense to combine your funeral arrangements with funeral insurance as a package that relieves heirs of all financial and funeral planning concerns.

Long-term Care Insurance: Typically, in our working years, we have disability insurance to provide income in the event of our disability. Since we are no longer working in our retirement, it's wise to obtain long-term care insurance in the event of disability due to age. Long-term care insurance policies provide income to cover the extra expenses for the help you need for shopping, cleaning, cooking, bathing, dressing, driving and getting round.

As you can see, there are many types of senior insurance issues that apply specifically to retirees past 65 years of age.

Other Retirement Issues

Retirement is not just about the size of your nest egg. There are several considerations for a comfortable retirement experience in addition to a financial retirement plan. These considerations extend to where you live, housing options, and healthcare quality and choices. Most importantly, what activities will you do in retirement to stay mentally and physically fit? Here's a short list of considerations to add to your retirement checklist.

Healthcare Needs for a Healthy Retirement Experience

1. Do you have insurance that will cover catastrophes?
2. Do you live in proximity to medical specialists you may need to consult?
3. Is your HMO or health plan available where you plan to have a second home or move?
4. If you plan to travel outside of the US, does your health plan cover you?
5. Do you have long-term care insurance? (Don't make the mistake of thinking that Medicare pays.)

Retirement and Moving Your Residence

1. What are the tax rates in the new community—property taxes, state income taxes, state sales tax – and do they tax retirement income and social security income differently than other income?
2. If you reach an age where you cannot drive, will the public transit take you to your favorite places?
3. Is the climate satisfactory in all months? How about allergy months (e.g. spring time)?
4. Is there an adequate selection of senior housing complexes, assisted living facilities and nursing homes and what is the cost?
5. Is there an active population of retirees in the new area and people you can befriend?

Retirement income structure

1. Does one spouse have a pension that ends upon death? Your retirement consultant can show you how to possibly replace that income.
2. If both spouses are eligible for Social Security income, there may be ways to maximize the benefit—check with a retirement planner.

Estate planning

Estate planning is not just for the rich. It is for anyone that cares about their heirs. In fact, most aspects of estate planning basics have little to do with money.

Estate planning basics do address the eventual and economical distribution of your possessions and authority but more importantly, how you take care of your loved ones. Many of you may think you don't have an estate plan – but you do! Federal and state rules will determine who gets what and how much, and how you will be treated if you become very ill. If not prepared with basic estate planning knowledge, it costs money and heartache.

Putting your estate in order can be complex. It depends on how many assets you have, where they are, your family structure – children, divorced and previous children, state laws – and more. But, no matter how small or large your estate is, here are the four tools of basic estate planning:

1. Will or trust
2. Durable power of attorney
3. Living will
4. Health care proxy (medical durable power of attorney)

Your will shows your wishes for disposition of your assets and names a guardian for minors. In it, state how property in your name should be distributed, name an executor to be in charge of carrying out your wishes, and provide for payments of costs incurred in settling your estate. And for your minor children, designate a guardian and name a trustee to protect their inheritances. One estate planning basic is to use a trust in place of a will because it maintains privacy and avoids court involvement in the settlement of your estate. Additionally, trusts typically contain conservatorship provisions. If you should lose your mental capacity in your old age, do you want your family to be in court about your care, or would you rather have a written plan in advance? Estate planning basics call for planning ahead.

Your Durable Power of Attorney gives someone else permission to manage your affairs if you become disabled or incapacitated. With it, as soon as you become incapacitated, your designated person, i.e. your spouse, adult child or anyone you trust, can manage (pay bills, make decisions) your affairs or you can restrict that power to only particular assets or accounts. Don't wait! You can't create a durable power of attorney once you've become incompetent.

Your Living Will – expresses your wishes to your doctors when they must consider use of life-sustaining measures. This is your declaration on what life-sustaining medical treatments you will (or will not) allow if you become incapacitated. For example, you may request that artificial nourishment be (or not be) withheld if you become terminally ill. You may recall the Mary Schiavo case on this issue which became a national news story only because these estate planning basics were ignored.

A Medical Durable Power of Attorney (or health care proxy) is a crucial and basic estate planning tool that designates someone to make health care decisions on your behalf in the event you no longer can. It's a document that gives a person you designate permission to make health care decisions on your behalf if you are unable to do so in the future, and perhaps, consistent with your living will. Talk to the person before appointing him, and be sure he or she understands and is comfortable with your wishes, and is strong enough to carry them out despite some family members' objections.

Seek professional help in planning your estate – consistent with your state laws and your particular circumstances. No one will tell you about the estate planning basics. Be proactive and ASK your retirement advisors what you need to do to get your estate in order.

Summary

These are only **a few ideas** to help you better protect your assets and make the most of what you worked hard to accumulate.

Financial and retirement planning can have an impact on your estate, even if your estate is of modest size.

- Find an advisor who is knowledgeable in senior matters.
- Find an advisor who will answer your questions, as well as answer questions that you have not thought to ask.
- Find an advisor who will point out opportunities and caution you about risks, and one who is knowledgeable about the special needs of retired individuals.

With the sound advice of experience and a conservative retirement plan, you and your family can get the most out of your assets.

About
Jeff Ackler, SmartVestor Pro and

Jeff Ackler is a CERTIFIED FINANCIAL PLANNER™ professional, who began his career in the Financial Services Industry in 1992. Jeff began his career at Dreyfus Corporation in Uniondale, NY, working with clients and prospects and finding appropriate mutual fund investments for their long term needs.

In 1995, Jeff joined Charles Schwab & Company, Inc. where he built and managed client relationships in the Melville, NY office. He also acted as a trainer to other representatives and managers, developed business plans, assisted in the creation of business growth strategies and more. He was an approved media spokesperson for Charles Schwab & Company, often appearing on local TV news and print articles. Jeff was awarded quarterly "Excellence in Service" awards on multiple occasions, and received the honors of "Top Performer" and "Iron Man" for outstanding Customer Service. He was also a leader in local charity organizations, helping to organize and participate in the company sponsored "Habitat For Humanity" events, and recognized for his efforts to invest in the community.

After relocating to Florida with Schwab in 2002, Jeff spent 7 years in Supervisory and Operations Management roles in both the Orlando Service Center and in the St. Petersburg, Florida Branch. He was successful in leading those teams in service, compliance and sales excellence. During the latter part of that time he took it upon himself to study for and complete the CFP® Certification course, and passed the rigorous examination in 2009.

Given his extensive experience in serving clients and long track record of success, Jeff accepted a position with Schwab Private Client (later renamed to Schwab Private Client Investment Advisory, Inc.) in 2009 as a Portfolio Consultant. He managed the relationships and assets of over 200 high net worth clients with assets of over $200 Million, ($500K Minimum per client), and helped counsel and guide them during the aftermath of some of the most challenging market conditions we've seen in the last 75 years.

Jeff has impressive experience working with all types of clients with diverse backgrounds, such as CEO's, Small Business Owners, Doctors, Executives, Engineers, Teachers, Lawyers, Accountants, among many other professions. Many clients are retirees from all walks of life, some in need of increased dividends or are living on a fixed budget and in great need of the professional guidance Jeff provided. He was frequently referred by his clients to other potential high-net worth prospects due to his work ethic and caring attitude towards his valued clients. In 2015, after 20+ years of success at Schwab, Jeff left Schwab to start his own firm, Wealth Realm, where he continues to work very closely with clients and helps them pursue their financial goals and dreams. As a Dave Ramsey SmartVestor Pro, he helps guide his clients through the 7 baby steps to financial freedom and work towards their long-term financial goals. He provides his clients with very hi-tech tools and "Human Advice", with a strong focus on both asset management and wealth planning solutions.

Jeff graduated from S.U.N.Y. Old Westbury in 1990 with a B.S. in Business. He completed his Certificate Program in Financial Planning at The College for Financial Planning in 2008, and is a CERTIFIED FINANCIAL PLANNER™ Practitioner. He holds the Series 7, 8, 24, 63 and 65 registrations with LP Financial and is an LPL Investment Advisor Representative.

Jeff resides in Tavares, FL with his wife Valerie, and together they are also the franchise owners of Cruise Planners, a full-service travel agency. Their grown children and family live in the surrounding neighborhoods. They enjoy going on cruises and tours, hiking the mountains, and spending time with family and their two small dogs.

About
Wealth Realm

Welcome, I'm Jeff Ackler, CERTIFIED FINANCIAL PLANNER™ Practitioner, Founder of Wealth Realm and SmartVestor Pro (see enclosed for more information). We understand that individuals face unique challenges as they build wealth, plan for the future, and enjoy retirement. We can help take the mystery out of preparing for tomorrow and living for today. Whether your goals include preparing for or managing wealth in retirement, saving for college, or preparing your estate plan, our personalized service focuses on your needs, wants, and financial goals and objectives. Contact us now for your Complimentary Consultation!

- **What Does It Mean To Be A SmartVestor Pro?** -

- **I Agree to the SmartVestor Code of Conduct** - I believe everyone deserves access to objective, professional investing guidance. I have earned my position as a SmartVestor Pro because of my experience in the industry and my drive to help others.

- **I Provide a Refreshing Twist on Financial Planning** - I have the heart of a teacher, not the attitude of a salesman. I'm someone you can feel comfortable talking to and someone you can trust. We'll work together to create a plan to help you work towards your goals.

- **I Care About Your Future** - I'm more than a "financial planner". I'm someone you can relate to and share your dreams with. I fit your investments to your life, help you understand what you're investing in and why, and encourage you to stick with your long-term goals.

- **When making plans for retirement, or looking for advice on investing, you need to speak with someone "with the heart of a teacher". We give you the time and helpful information you need in order to understand all of your options and make the best choices to fit your situation and goals. It is our honor and commitment to provide you with quality service and objective advice. As theSmartVestor Pro for Dave Ramsey in this area, we guide our clients on a path of wise financial decisions for today that will lead to effective wealth management.** -

- **The SmartVestor program is a national directory of investment professionals. Neither Dave Ramsey nor SmartVestor are affiliates of Wealth Realm, LLC or LPL.** -

Phone today with questions or to see if we can help you.
There is no charge for an initial meeting.

Jeff Ackler, SmartVestor Pro and
CERTIFIED FINANCIAL PLANNER™ Professional

(844) 697-3256

Wealth Realm
jackler@mywealthrealm.com
4400 N. Hwy 19A, Suite 4A
Mount Dora, FL 32757

©2015 Financial Educators
First Published 11/01/10
This booklet is protected by copyright laws. It may not be reproduced or distributed without express written permission of the author by anyone other than those with an active subscription to SeniorLeads™ or advisorbooklets.com.
Published by Financial Educators