



BOB CARLSON'S

Retirement Watch

Overcoming Six Critical Threats to Your Retirement Security

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Not Your Parents' Retirement

Retirement has changed and will change again.

Don't set-it-and-forget-it.

6 Critical Threats

- **Reduced external support**
- **Frequent changes**
- **Underestimating life expectancy**
- **Low interest rates, investment returns**
- **Misestimating spending, inflation**
- **Medical and long-term care surprises**



Three Key Points

- **Have a written plan**
- **It's only a plan — update and revise**
- **Test your assumptions**



Assess Life Expectancy

- **Downplay family history**
- **Better: Average life expectancy tables**
- **Even better: Online questionnaires**
- **Maybe best: Customized analysis such as LongevityQuest.com**

Establish a Floor of Guaranteed Lifetime Income

- **Enough to cover basic, fixed expenses**
- **Sources of guaranteed income:**
 - ✓ **Social Security**
 - ✓ **Annuities**
 - ✓ **Employer pensions**

Maximize Social Security

- **Strategies to increase benefits**
 - **Delay start date**
 - **Coordinate with spouse**
 - **Special rules for divorced, widowed**
- **Congress curtailed advanced strategies:**
 - **Claim-and-suspend**
 - **Claim spousal benefits first**



Annuities for the Spending Years

- **Two types to consider:**
 - **Immediate annuities**
 - **Longevity annuities (deferred income annuity)**
- **Pay-me-now vs. pay-me-later**



The Annuity Puzzle

- **Why people don't buy annuities:**
 - **No legacy**
 - **No purchasing power protection**
 - **Loss of control**
 - **Opportunity foregone**
- **Terms can be adjusted**

Annuity Trade Offs

- **Greater protection/control = lower payout**
- **Annuities vs. Personal Investments:**
 - **Certainty vs. potential**
 - **Security vs. control & flexibility**

Annuity Buying Tips

- **Shop around**
- **Purchase age 70 or later to increase payout**
- **Should you wait for higher yields?**
- **Consider inflation protection**



Your Spending Plan

Biggest gap in most plans

- **The 4% rule and variations**
- **Flexible or cyclical spending**
- **Software strategies**
- **All annuities**



The 4% Spending Rule

- **1st year: withdraw 4.2% of value**
- **Subsequently: Increase dollar amount by previous year's inflation**

Cautions About 4% Rule

- Only a high probability portfolio will last
- Considers only 30-year retirement
- Based on period of high returns
- Doesn't match real spending patterns
- How long and large is the shortfall?



Depends on Portfolio, Markets

- **Higher withdrawal rate available when:**
 - **Investments at low valuations/levels at start of retirement**
 - **Different portfolio**
 - **Low inflation**
- **But...a lower withdrawal rate could be required at other times**

The Real World: Spending Changes Over Time

- **Three stages of retirement spending**
 - **Early, pent-up spending**
 - **Lower, stable middle years**
 - **Even lower later years, might rise**
- **Wild Cards:**
 - **Medical expenses/long-term care**
 - **Kids and grandkids**



Yale Endowment Strategy

- **Set first year withdrawal rate**
- **Each subsequent year's withdrawal has two parts:**
 - **70%: Last year's withdrawal amount plus inflation**
 - **30%: First year withdrawal percentage times new portfolio value**

Yale Endowment Strategy

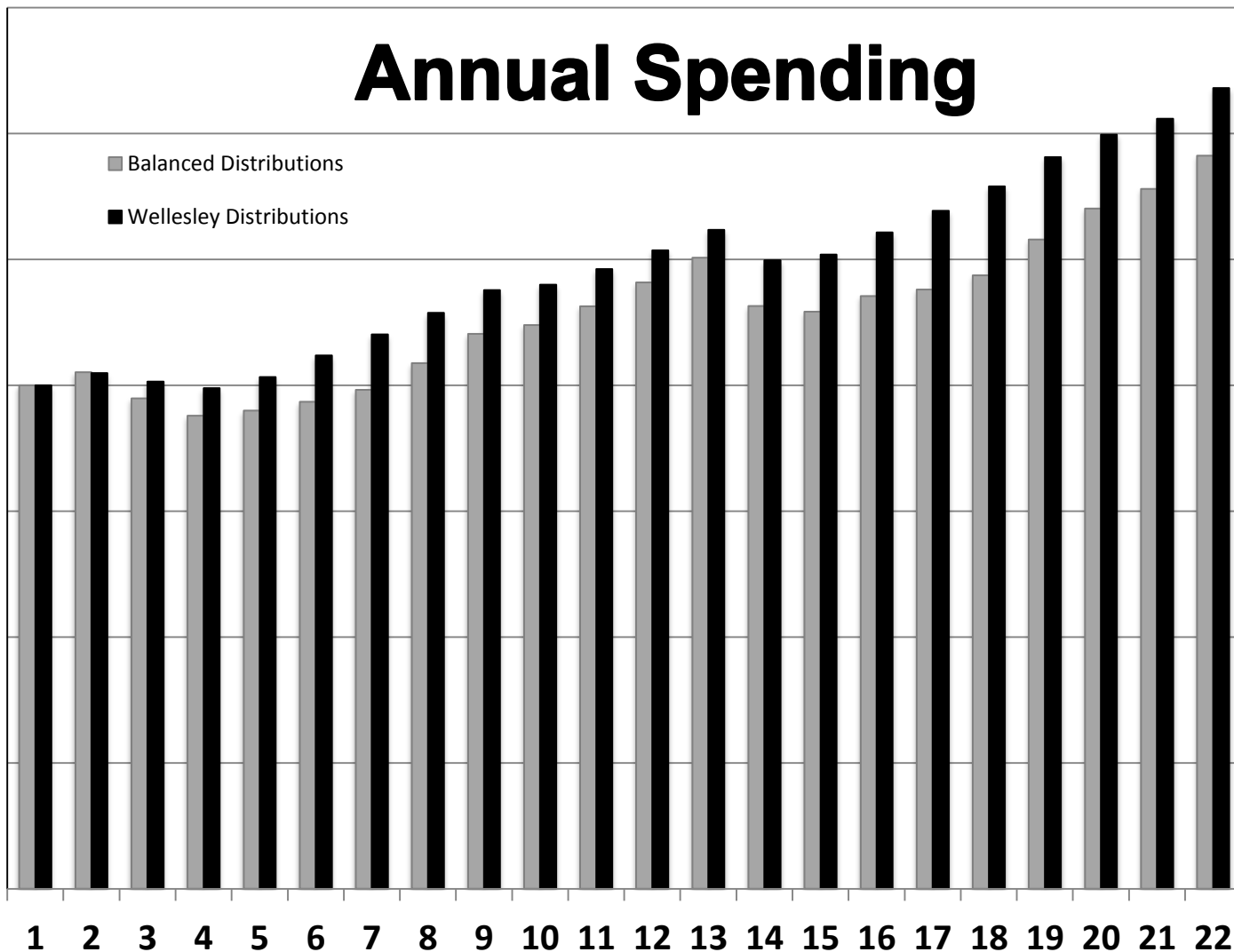
Example: \$500,000 fund; 5% spending rate.

Withdraw \$25,000 first year. Second year: inflation was 2%; portfolio value \$480,000 end of first year.

1. First year's spending plus inflation = \$25,500. Multiply by 70% = \$17,850.

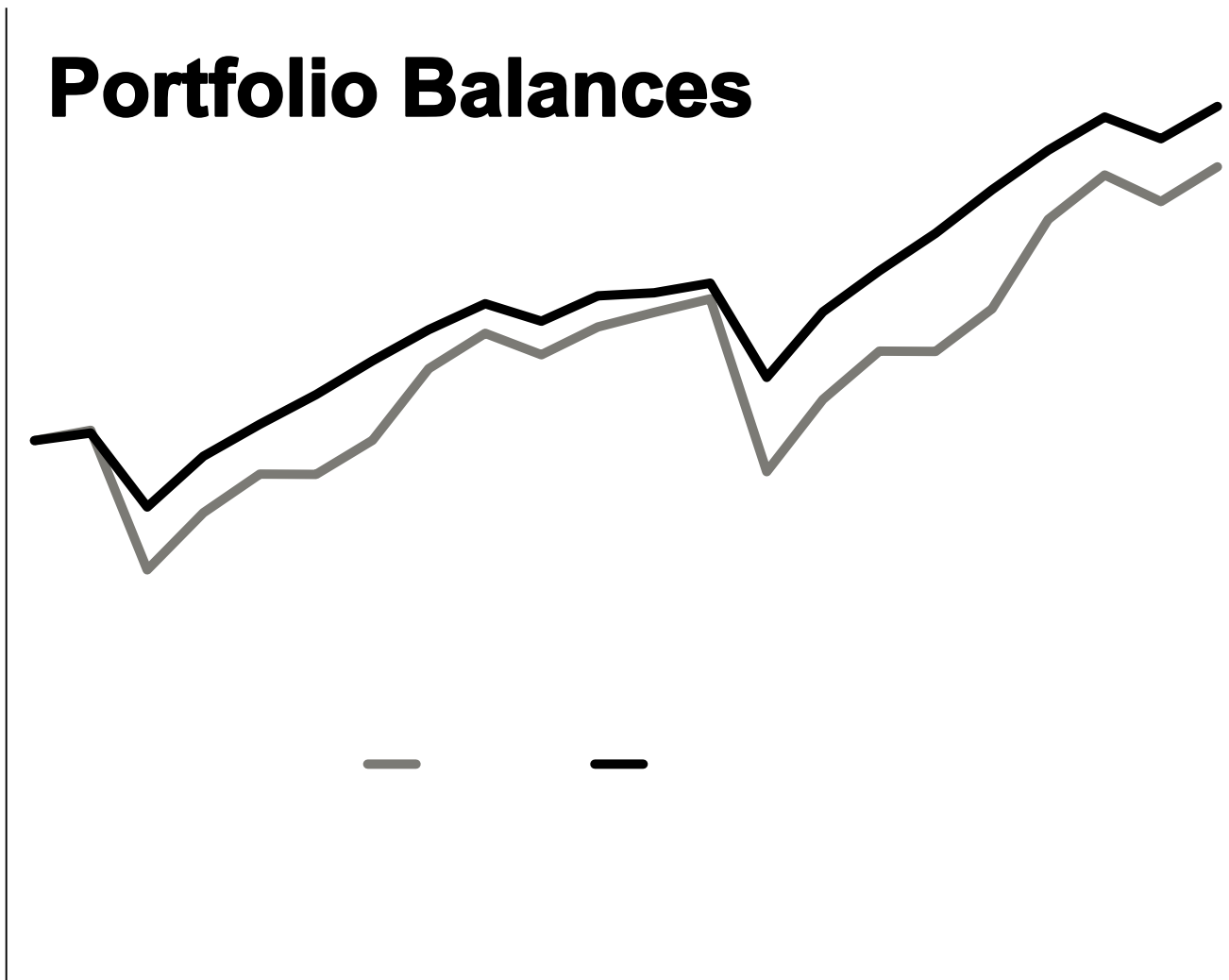
2. New fund value times spending rate = \$24,000 times 30% = \$7,200.

Total second year withdrawal = \$25,050.





Portfolio Balances



Spending Policy Summary

- **Need a spending policy**
- **Can spend more in early years**
- **Have flexibility or a cushion**
- **Don't forget inflation**
- **Revisit the spending policy**



The Medical Expense Wildcard

How much will you spend?

- **Up to \$370,000 – EBRI**
- **\$275,000 average – Fidelity**
- **Had declined from 2011-2014**

Doesn't include long-term care

Don't be a health care orphan

Better Way To Estimate

- Annual premiums
- Deductibles
- Coinsurance
- Uncovered: dental, vision, etc.
- Likely total: \$8,500
- Don't forget inflation

The Medical Expense Wildcard

- Know the gaps in Medicare
- Expect more means-testing
- Consider insurance: certainty vs. cost
- Shop for coverage
- Use Health Savings Accounts
- Stress test your spending plan

Will You Need LTC?

Much more than nursing home insurance

Battle of Statistics:

- **70% of those 65 and over will need some kind of LTC**
- **Only 19% of men and 31% of women should buy long-term care insurance**



Low Probability, High Cost

- **Costs \$200,000+ annually**
- **Increases faster than CPI**
- **Even home care is expensive**



Why to Plan

- **Burden on family**
- **Protect assets: Yours and family's**
- **Avoid dependence**

Should be part of every retirement plan

Handling the LTC Crisis

- **Cover with a package:**
 - **Self-insure**
 - **Family**
 - **Government?**
 - **Traditional LTCI**
 - **Annuities or life insurance riders**



Why LTC Hybrids are Popular

- **Can pay with one lump sum premium**
- **Premium/cost doesn't change**
- **No use-it-or-lose-it**
- **Easier to understand**
- **Choice of investment vs. coverage**

Making the Most of Home Equity

- **One of your most valuable assets**
- **Carefully study relocating**
- **Understand downsizing**
- **Consider reverse mortgages**
- **Making your home age-friendly**



Understanding Right-sizing

- **Key way to tap equity**
- **Understand all costs (about 10%)**
- **Quantify the benefits**
- **Will expenses be lower?**
- **Better sooner than later**

The Home Pension

- Improved a lot over the years
- Tax free, doesn't affect means-testing
- Limit depends on age, interest rates
- Relatively high fees (3% home value)
- Must maintain home, pay taxes and insurance



Estate Planning is Much More Than Tax Planning

- **Asset management/succession**
- **Personal care/care of others**
- **Probate**
- **Avoiding disputes**
- **Integrate with income taxes**

Additional Threats

- **Unsustainable spending, no plan**
- **Helping others**
- **High fixed spending, no flexibility**
- **Second homes, new businesses**
- **Not planning for the solo years**