



SOCIETY FOR FINANCIAL EDUCATION AND PROFESSIONAL DEVELOPMENT

Enhancing financial and professional growth...

1800 Diagonal Road, Suite 600

Alexandria, VA 22314

(703) 920-3807 • (703) 647-6009 Fax

www.sfepd.org

financial



S U C C E S S

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Sufficient Funds for Your Entire Retirement

When you're young, the idea of retirement is shrouded in idle thoughts of what you'll do when you don't have to work anymore. But while those fast approaching retirement may have a clearer view of what is to come, in some ways, they are just as unaware of what is really in store for them over the next few decades. Most of us don't know how long we're going to live, so making sure we have sufficient funds for our entire retirement is incredibly important.

How Much to Save?

While it's thought you may only need as low as 70% of your current income per year in retirement, it is wise to assume that you will need closer to 100%. Think of all the things you enjoy doing now: traveling, hobbies, attending cultural events and sports games. All of



these could be a vital part of an active and interesting retirement, but they also cost money. Make sure you have saved enough to be active and that your withdrawal rate is not so high that your resources could deplete early. While it's always customizable, a good starting point is to withdraw 4% in the first year of your retirement, and continue to adjust for inflation down the road.

Cutting back on living expenses now will free resources for more contributions to your retirement and

will give you an idea of how little you can live comfortably on. This will give you a better idea of how much you will really need in retirement. The most important expense to get rid of is payments on any debt. Your cost of living will be significantly reduced if you have paid off your mortgage and any outstanding consumer debt.

When forming a plan or determining if you are ready to retire now, err on the side of longevity

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Consider Bond Tents

An important strategy to consider is building a bond tent before you retire. This strategy increases the allocation of bonds during the 10 years or so prior to retirement, and then the bonds are sold from this portion of your portfolio during the first 10 to 15 years of retirement, providing you with an income stream.

This strategy is called a bond tent because if you were to look at it on a line graph, the bonds in the portfolio steadily rise until it reaches a peak at retirement and then falls as the bonds are sold, which makes a tent shape.

The strategy works by reallocating a traditional 60/40 mix of stocks and bonds to an allocation of 50% or 60% in bonds by the time you retire. The bond holdings are then sold during the first half of retirement until the original mix is once again reached. This provides portfolio protection against major losses due to a market downturn during the first half of retirement. The portion of your portfolio that is still in stocks will continue on the path for long-term growth to fund your later years of retirement as well as provide protection against inflation. ○○○

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Sufficient Funds

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when it comes to your lifespan. Add a few years to what is generally expected — plan on living until 85 or 90. It is a far better situation to have saved more than necessary than to run out of funds late in life. In the vein of further caution, it is a good idea to have an emergency fund outside of your retirement plan. A general rule is to have at least six months of living expenses tucked away just in case.

What about Housing?

In general, housing should take up about 25% of your gross pay or 35% of your take-home pay. If you own your own home and have paid off your mortgage, this shouldn't be a difficult guideline — but remember that with a house comes additional, and often expensive, repair and maintenance costs. If you plan on staying in your home throughout your retirement, make sure the big stuff is in good working order or replaced while you are still drawing income. This includes the roof, the foundation, siding, HVAC, sewer lines, and septic system, as well as an emergency fund in case of fire or water damage.

Your house will also need to be adapted for your needs as you age. You may need to consider selling a home that requires a lot of upkeep and downsizing to something more manageable. No one wants to face the reality of physical deterioration, but most people face mobility issues as they age and a one-story home is safer and easier to navigate.

Continuing Income Options

It may be tempting, but resist the urge to take early retirement. It is difficult enough to save enough money to live on in retirement if you are only retired for 20-25 years. Imagine if you retire at 55 years old and live for another 35 years. You will need funds to support yourself in retirement for longer than you were in the workforce. Every extra

Calculating Your Life Insurance Needs

While life insurance can serve a variety of purposes, one of the most common is to maintain your family's standard of living in case you die. Many rules of thumb exist, such as five to seven times your annual income, but don't rely on rules of thumb to determine your coverage. They don't take into account your individual circumstances. Your insurance needs will probably change over time. To determine how much insurance you need, consider these questions:

What lifestyle do you want to provide for your spouse and dependents after your death?

Review your needs in detail, taking a look at things like:

- ✓ Do you want to provide the same standard of living? Will your spouse and children live in the same house?
- ✓ Will the family need different childcare arrangements?
- ✓ Do you want to provide for college educations?
- ✓ If your spouse doesn't work, do you want that to continue, or do you expect him/her to work after your death?
- ✓ Do you need to consider the support of elderly parents?
- ✓ How long must your family live off the insurance proceeds? Will your current retirement fund provide enough income

for your spouse to live on after retirement or do you need to provide income until his/her death?

- ✓ Do you want to pay off a mortgage or other debt with insurance proceeds?
- ✓ Do you have estate-tax considerations you want to address with life insurance?

How much will that lifestyle cost? Come up with an estimate of how much this lifestyle will cost. Include all of your current expenses that would remain the same, as well as any new expenses you have identified. Remember to factor in hidden costs, such as providing for health insurance that was paid for by your employer. For large debts, such as a mortgage, determine whether it makes sense to pay the loan off in full or to continue making monthly payments.

How much life insurance do you need? First, consider what other income sources your spouse and/or dependents will have. This could include your spouse's earnings, retirement plans, Social Security, savings, and investments. Life insurance proceeds will be needed to provide the difference.

Your life insurance needs will change over time, so you should periodically go through this analysis. Please call to discuss your life insurance needs. ○○○

year you work is a year you don't have to support yourself using your retirement savings.

Once you've retired, it can be helpful for your savings and your wellbeing to work a casual, light job. Many retirees find themselves missing the comradery of the workplace and the continued income will allow for more spending money, vacations, and greater security in your savings. You could put your experience to work for you as

a part-time consultant in your former field, or put in a few hours a week at the town museum.

Last but not least, consider longevity insurance. This is a type of deferred annuity that will continue to provide income well into your twilight years. People usually purchase it at around 65 years old, and the payout begins at 80 years.

Please call if you'd like to discuss this in more detail. ○○○

The Basics of The SECURE Act

Signed into law by President Trump on December 20, 2019, the Setting Every Community Up for Retirement Enhancement Act, also known as the SECURE Act, is intended to increase access to tax-advantaged retirement accounts, helping older Americans in retirement and encouraging employers to offer 401(k) plans.

The new act, which went into effect on January 1, 2020, will affect IRAs, 401(k) plans, and other retirement accounts.

What Has Changed

The SECURE Act has made several changes related to tax-advantaged accounts:

✓ Increasing the cap for small businesses to automatically enroll workers in safe harbor retirement plans from 10% of wages to 15%.

✓ Providing a \$500 tax credit per year to employers who create a 401(k) or SIMPLE IRA plan with automatic enrollment.

✓ Allowing businesses to enroll part-time employees who have worked 1,000 hours throughout the year or 500 hours for three consecutive years.

✓ Encouraging plan sponsors to offer annuities in their 401(k) plans by reducing their liability if the insurer can't meet its financial obligations, and also not requiring them to choose the lowest-cost plan.

✓ Removing the "one bad apple rule" for multiple employer retirement plans, which required that all of the participating small businesses meet the plan requirements or it failed for all of them. Now multiple employer plans will enjoy the economy of scale and be able to provide more plan features.

✓ Changing the age of required minimum distributions (RMDs) on retirement accounts from 70½ to 72.

✓ Eliminating the maximum age for traditional IRA contributions, which was previously capped at 70½ years old.

✓ Allowing a penalty-free withdrawal of \$5,000 from 401(k) plans to help with the costs of having or adopting a child.

✓ Allowing the use of \$10,000 annually from 529 plans to repay student loans.

Another change is the removal of the stretch IRA, which is estimated to raise \$15.7 billion in tax revenue. This rule allowed nonspouses who inherited an IRA to stretch the disbursements over their lifetime. With the new rule, nonspouses who inherit an IRA will be required to take a full payout from the account within 10 years of the original account owner's death, beginning with account holders

who die in 2020. With the changes to inherited IRAs, it will be important for account owners to review their estate plans and the potential tax consequences.

The Jury Is Out

While it will take time for the jury to come in on whether the SECURE Act will make positive changes in helping Americans save for retirement, many financial experts appear to be optimistic and believe it is a step in the right direction. As expected, other experts feel it will have a limited impact on saving.

One thing experts can agree on is that Americans are currently not financially prepared for retirement, and changes are needed to put people on the path toward financial security. Hopefully, the SECURE Act is the impetus for that change. Please call if you'd like to discuss this in more detail. ○○○



4 Steps to Boost Financial Confidence

Below are four simple suggestions that can help you increase your financial confidence.

1. Get organized. Not too long ago, it didn't take much work to organize your finances. Unless you were very wealthy, money matters were fairly straightforward. You could easily store all your financial information in a single accordion file. Today, things are more complicated. Credit cards, home equity lines of credit, student loans, 401(k)s and IRAs, 529 plans for college expenses — the list of information to keep track of seems endless. There are numerous strategies for getting organized. Some people stick with that old-fashioned accordion file. Others go completely digital. Whatever solution you choose, you need to know all the details of your finances.

2. Get educated. Simply taking the time to learn more about finances and managing your money can do wonders for how you feel about your life. Basic financial literacy isn't really covered in most school curricula, so many otherwise savvy adults are clueless in this area. Many community colleges, churches, and nonprofit groups

offer classes, or you can sign up for a class online. If you don't want to go back to school, consider watching videos or reading articles that review financial concepts.

3. Get a financial plan. Setting goals and making meaningful progress toward those goals will do wonders for your financial self-esteem. In fact, people who engage in financial planning are more likely to report they live comfortably and are on track to meet their financial goals. A financial plan brings together all the threads of your financial life. Having a solid plan in place that covers everything from preparing for emergencies to planning for retirement is key to boosting your financial confidence.

4. Get help. Getting reliable advice from an outside expert can do wonders for your financial confidence. Just like a doctor supports and guides you in making decisions about your health, a financial advisor is there to make sure you're sticking to your financial plan. There are many decisions that are difficult to make on your own, from deciding how much to save for retirement to choosing investments for your portfolio. If you're unsure about what to do next, please call. ○○○

Consider Maturity Dates

Bonds can be purchased with maturity dates ranging from several weeks to several decades. Before deciding on a maturity date, review how that date affects investment risk and your ability to pursue your goals.

✓ **Interest rates and bond prices move in opposite directions.**

A bond's price rises when interest rates fall and declines when interest rates rise. The existing bond's price must change to provide the same yield to maturity as an equivalent, newly issued bond with prevailing interest rates.

✓ **Bonds with longer maturities are more significantly affected by interest rate changes.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, the bond's price must change more to compensate for the rate change.

Although you can't control interest rate changes, you can limit the effects of those changes by selecting bonds with maturity dates close to when you need your principal. In many cases, you may not know exactly when that will be, but you should at least know whether you are investing for the short, intermediate, or long term. ○○○

Financial Thoughts

About 69% of Americans say they are concerned about cybersecurity in the wider adoption of technology. Yet, 78% of Americans agree that the widespread adoption of technology within financial services is a positive development (Source: Personal Capital, 2019).

Approximately 80% of adults over age 50 want to remain in their current home as they age, but only 50% expect that they will

be able to do so (Source: *Barron's*, June 3, 2019).

About 40% of families believe they are paying the right price for college costs (Source: Sallie Mae, 2019).

About 51% of Americans expect to inherit money from older family members. Of that group, 25% believe the inheritance will largely or entirely fund their retirements (Source: Wealth-

Management.com, June 2019).

About 20% of baby boomers, 36% of gen-xers, 32% of millennials, and 63% of generation z (ages 18 to 22) expect an inheritance from older family members (Source: WealthManagement.com, June 2019).

Almost 92% of United States taxpayers e-filed their returns in 2019 (Source: eFile.com, 2019). ○○○