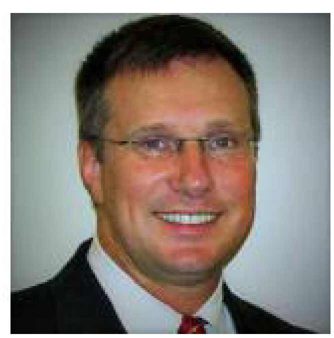
Retire SMART: A Simple Guide to Retirement

Provided to you by:

Kenneth Baker

Your Trusted Financial Advisor



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Written by Financial Educators

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Kenneth Baker
Your Trusted Financial Advisor
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Specializing, Designing and Providing "Living Benefits" That Are Rarely Offered To Clients To Utilize In Life.rnrnrn"Helping To Provide For Your Future Financial Requirements Needs That Are Equal To Your Current Lifestyle of TodayrnThis Requires Planning In Ways To Maintain "The Most Efficient Position Possible", In Today's Changing World."

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 42% chance that at least one will live to age 90 https://www.kitces.com/joint-life-expectancy-and-mortality-calculator/ visited 12/22/22

[2] National Bankruptcy Forum "Medical debt is a big problem in the United States. For years, it's been the No. 1 reason people file for bankruptcy" http://www.natlbankruptcy.com/us-medical-debt-statistics/ visited 12/22/22

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 https://bit.ly/2XDhPJE). 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 2018 https://bit.ly/2MY0Yiz, visited 12/24/22

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 1.24% based on a national average for the week of December 7, 2022.[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 5%) [6] if you don't need the income or immediate annuities if you need the income. A 70-year-old male can get $737/month for life on a $100,000 deposit (equal to 8.8% annual 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 5.69%.[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.

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[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 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 national average 12/24/22

[6] Oxford Life Multi-Select 10 https://www.immediateannuities.com/deferred-annuities 12/24/22

[7] Comparative Annuity Reports, highest quote December 2022 https://www.immediateannuities.com/pdfs/comparative-annuity-reports/Current-Issue.pdf

[8] Mortgage News Daily, Freddie Mac 15 year rates http://www.mortgagenewsdaily.com/data/freddiemac-fhfa-mba.aspx visited 12/24/22

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 5.25% 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 4.5% [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 12/24/22 CHABOT-LAS POSITAS CALIF CMNTY CAP APPREC-SER C-AGM-CR insured due 8/1/40 yield 5.24%, price 25.68 https://www.municipalbonds.com/screener

[10] Dogs of the Dow https://www.dogsofthedow.com/doggish.htm, average yield of top 10 yielding stocks of the Dow Jones Industrial Average 12/24/22.

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
Kenneth Baker

Why My Clients Choose to Work With Me

If you have had any previous experience with a financial advisor, chances are the conversation revolved around how much money you have, where it's located, we can do a better job. It would seem that most investment firms share the same singular focus of trying to find better products that earn a higher rate of return which often take more risk. For all of the fancy analytics and mathematical acrobatics available today, nobody has yet figured out how to predict the future.

Earning higher returns is certainly not a bad thing, and something we can help you with as well, however we believe we should FIRST help our clients avoid money they could be losing unknowingly and unnecessarily before considering options that require more risk. Return is only one way, but not the only thing to consider when evaluating the efficiency of your own future financial requirements while maintaining your current lifestyle.

The money used to secure your financial future must somehow come from these three areas. Accumulated money represents the dollars you currently have invested and are currently saving. You could focus your attention on these dollars in order to find better investments that potentially pay higher rates of return.

Lifestyle money represents the dollars you are spending to maintain your current standard of living: where you live, what you eat, where you vacation etc. For many people, this is where the conversation ends. While everyone wants to solve their financial problems reducing their current standard of living is not a popular option.

What if there were a way to address the issue without having to incur more risk or impact your present lifestyle? I'm glad you asked! Transferred money represents the dollars you may be transferring away unknowingly, and unnecessarily. Such as: 1) How you pay for your house, 2) What you pay in taxes, 3) How you fund your retirement accounts, 4) How to pay for educations costs, 5) How you pay for major capital purchases like cars, education, weddings, and other large expenses.

There are really only two ways a financial advisor can be of help to you: 1. By finding better products that pay higher rates of return requiring more risk 2. By helping you be more efficient by avoiding unnecessarily losses

I believe that there is more opportunity to serve my clients by helping them first avoid the losses, before trying to pick the winners. My focus with clients begins with eliminating the involuntary and unnecessary wealth transfers. Consider this. There are two ways to fill up a bucket that has holes in it. One way is to pour more in, and the other is to first plug the holes, then the bucket will fill up even if the flow is just a trickle. So, which strategy more closely resembles the way you are currently approaching financial management?

PRO INCOME ADVISORS LLC

Here at Pro Income Advisors, LLC we believe you need to know *"What Exactly Do We Do?"*

I am in the financial services business with a very unique approach in that I help people FIND MONEY they are currently losing unknowingly and unnecessarily. I believe there is more opportunity to serve by helping you avoid the losses than by picking the winners. We first locate the best strategy for our clients, then we look for the products if needed, that will have you in the most efficient position. You will never pay me directly, out of your funds, as we strive for all your dollars to work towards your future financial needs. We explain just how we get compensated not using your dollars. So, in 15-30 minutes, I will be able to answer all of your questions for you and you will be able to determine if I'll be able to help you and if what I do is what you are looking for. We are called Pro Income Advisors for a reason, to have you to be able to retire at your current standard of living and have your money last through your life expectancy.

- **<u>By Locating The Top Five Major Areas of Wealth Transfers-</u>** ***Where people are potentially losing money unknowingly and unnecessarily. Allow me to me ask you this, "If what you thought was true about your monies, turned out not to be true, when would you want to know it ?"***

- **<u>By Providing You The Answers To The Four Financial Questions Everyone Should Know-</u>** ***By using our Financial GPS to help locate where you're currently are in your plan, How fast you are traveling toward your destination in your plan, How long it will take for you to arrive at your destination with your plan, If you don't do anything different than you are doing today, then, you will need to know how much will you have to reduce when arriving to your destination in your current plan.***

- **<u>Bottom Line: So, What Are The Best Plans For Retirement-</u>** ***The plan of knowing what exactly it is you want to happen, knowing it will happen, even if you're not here to see it happen.***

- **<u>Do You Want To See How Much Money You May Be Losing Unknowingly And Unnecessarily -</u>** ***Once we discover these dollars that you will miss out on, then you can reposition these dollars into the most efficient position possible.***

- **<u>"Man's mind, once stretched by a new idea, never regains its original dimensions."</u> -Oliver Wendell Holmes** ***"The definition of insanity is doing the same thing over and over again but expecting different results." or "If you want different results, do not do the same things."*****Albert Einstein**

- **<u>Retirement success isn't hard. It's just math.</u>** ***Many advisors try to use smoke and mirrors to make it seem like you need them (or pay them) to make sense of it all. They talk about picking the winners and rate of return like it's the end all be all when in reality, there is more wealth to be had by learning how to avoid the losses than by picking the winners. Picking the winners is hard, but avoiding the losses is easy... IF you know what to look for. And every dollar you keep from leaving your possession is a 100% return on that dollar.***

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

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ADVISORS

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