



# The Retirement Planning Process

## Five Years or Less, Then What?

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**My disclosure is in the Final Program  
Book and in the AAOS database.**

**I have no potential conflicts with this presentation.**

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**"The question isn't at what age I want to retire, it's at what income."**

George Foreman

## **Purpose**

- To Educate and Inform
- To Cause You to Think
- To Give You a List to Help You Improve Your Retirement
- The goal today is not to answer all of your questions but to make sure you know some of the right questions and to identify to whom they should be addressed.

# Websites

- [www.hindsfg.com](http://www.hindsfg.com)
- [www.socialsecurity.gov](http://www.socialsecurity.gov)
- Mobile App **Cynthia Hinds AAOS 2015 Presentation**

# The List

- Do a Budget
- Review Your Investment Strategy
- Review Beneficiary Designations
- Review Retirement Plan Documents
- Review Life Insurance
- Review Estate Plan
  - Asset Title
  - Power of Attorney



**"Don't simply retire from something; have something to retire to."**

Harry Emerson Fosdick



**“The world of tomorrow belongs to the person who has the vision today.”**

Robert Schuller

# Agenda

- Retirement Planning Process
- Trends
- Determining Retirement Income Needs
- Income and Investment Strategies
- Retirement Plan Distributions
- Preserving Your Estate
- Working with An Advisor (s)

# Trends

- Complex Exit Strategies
- Living Longer
- Volatile Investment Returns
- Higher Health Care / Insurance Costs
- Higher Taxes
- Inflation
- Social Security

# Trends: What does this mean?

- Less Predictability
- More Careful Planning
- Starting Earlier
- Possibly Postponing Retirement
- Creating Realistic Expectations



# Taxes

Income.....	10% - 39.6%
Capital Gains.....	0 – 20%
Estate.....	Up to 40%
IRD.....	10% - 39.6%
Trust (over \$12,000).....	39% + 3.8%

## EXTRAS:

.9% FICA

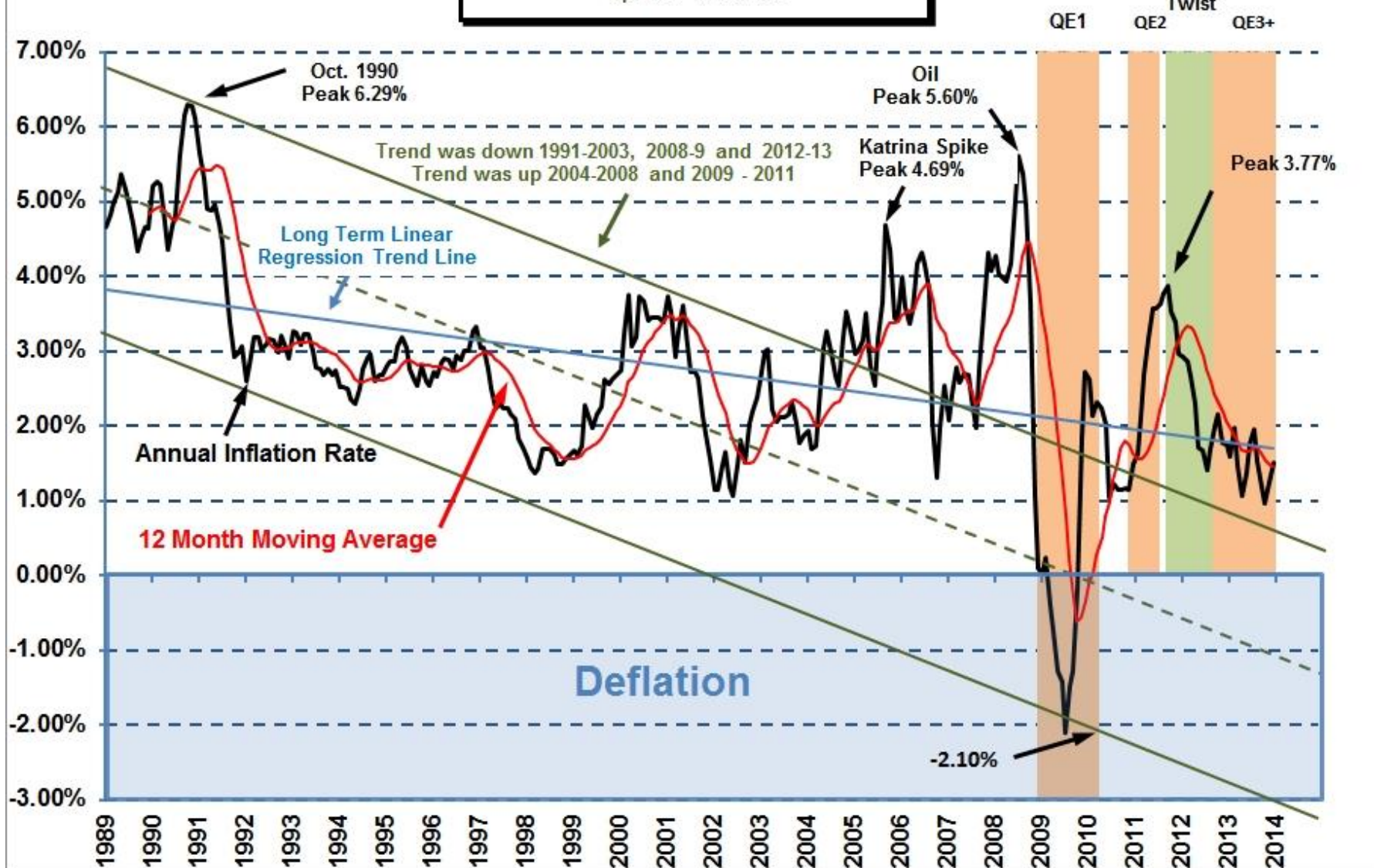
3.8% (over \$200k/\$250k)

# Annual Inflation Rate

© 2014 [www.InflationData.com](http://www.InflationData.com)

Prepared By Timothy McMahon

Updated 1/16/2014



# Impact of Inflation

- Average 1913 – 2013 3.21% Prior to 2000, 4.5%
- Trending Toward 3%
- Amount of income needed will increase by 50% in eight-twelve years

# Social Security Issues that Affect You

- Single \$24,000, \$31,700, \$41,100
- Married Additional 50% - 100%
- Benefits are offset by earned income until full retirement
- Benefits reduced at 62 (75%) enhanced after 65 (132% at 70)
- Not likely to change for recipients over 55

# Social Security Issues that Affect You

- WEP (Windfall Elimination Provision)
  - Reduction in benefit based on specific pension income.
- Spousal Benefit
  - Your spouse is eligible for 50% of your benefit if theirs is less than that amount.
  - Survivor Benefit is 100% if theirs is less than that amount

# Social Security Issues that Affect You

- Average Benefit \$2,500 / month
- COLA 2.8%
  - 10 Years - \$385,000
  - 20 Years - \$853,000
  - 30 Years - \$1,400,000

***If you are married, there are 81 possible scenarios for optimizing benefits!***

# How to Maximize Social Security

- Work Longer
- Apply at the Optimal Time
- Coordinate Spousal Benefits
  - 35% at 62
  - 50% at FRA
- File and Suspend, Higher Earner Delay to Age 70
- Maximize Survivor Benefit (100% of Deceased)
- Minimize Taxes

***Only an advisor can help you with long term strategies and making the right choice can mean a lot of money!***

# Comparison of Four Strategies

- **Assumptions**

- Patrick lives to 87, PIA \$2403
- Jan lives to 89, PIA \$1100
- Inflation rate 2.8%

**Total Benefit if elected @62, \$759,000**



# Comparison of Four Strategies

## **Elect @ 66**

\$2400 plus \$1200

Lifetime \$822,000

## **File and Suspend**

\$3168 plus \$1200

Lifetime \$856,000

## **Restricted Application**

\$550+\$1100/\$3168+\$1200

Lifetime \$877,000

## **Combination**

\$1200/\$3168+\$1452

Lifetime \$915,000

# How Much Retirement Income Do You Need?

- Rule of Thumb
  - 70% of Pre-Retirement Income
- Considerations
  - Lifestyle / Life Expectancy
  - Mortgage
- Factors
  - Budget: Fixed vs. Variable Expense
  - Inflation and Taxes
  - Investment Strategy
  - Estate Plan



**“A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life”**

Suze Orman

# How to Structure a Retirement Investment Portfolio

- Assess Income Needs and Risk Tolerance
- Evaluate Existing Return and Volatility
- Project how much income can be generated from existing portfolio
- Types of Income
  - Guaranteed, Fixed Income, Capital Gains

# How to Structure a Retirement Investment Portfolio

To create net after tax \$100,000 Cash Flow

Combined Federal and State Tax Bracket: 35%

- Retirement Plan, 5% \$3,076,000
- Capital Gain Portfolio, 5% \$2,666,000
- Tax Free Portfolio, 4% \$2,500,000

# How to Structure a Retirement Investment Portfolio

## Assumptions:

Combined Federal and State Tax Bracket: 35%

Social Security: \$3,000 / month

Defined Benefit	\$ 500,000
Defined Contribution	\$ 1,000,000
Other Tax-Advantaged Investment	\$ 500,000
Capital Gain Portfolio	\$ 500,000
Tax Free Portfolio	\$ 500,000
<b>Total</b>	<b>\$3,000,000</b>

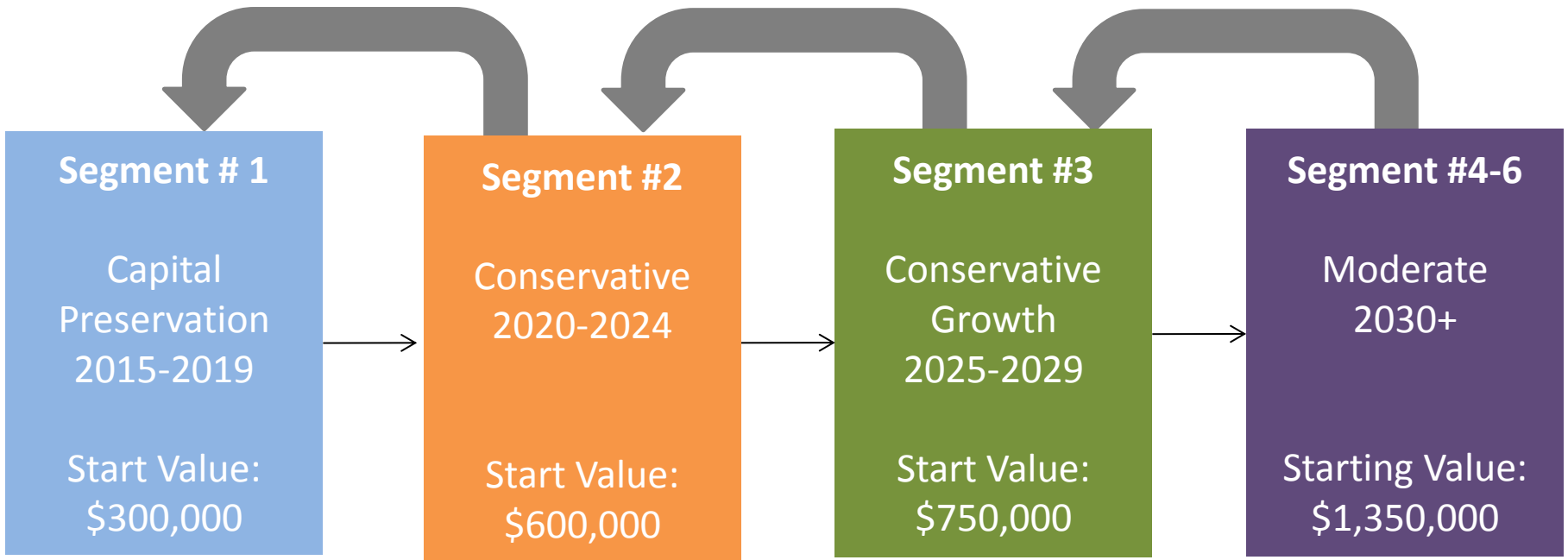
# How to Structure a Retirement Investment Portfolio

Social Security:	\$3,000 / month
Defined Benefit Pension (5%)	\$2,083 / \$1,354 / month
Defined Contribution (5%)	\$4,166 / \$2,708 / month
Other (5%)	\$2,083 / \$1,718 / month
Capital Gain Portfolio (5%)	\$2,083 / \$1,770 / month
Tax Free Portfolio (4%)	\$1,666 / \$1,666 / month
<b>Total</b>	<b>\$15,081 / \$12,216</b>

# Time Segmented Strategy

## Hypothetical Investment Strategy

\$3,000,000 Investment Portfolio



# Time Segmented Strategy

- **Segment 1: Capital Preservation**
  - Savings, CD's, Short Term Bonds
- **Segment 2: Conservative**
  - Fixed Income Portfolio
- **Segment 3: Moderate**
  - 40/60 Allocation of Equities to Fixed Income
- **Segment 4: Moderate Growth**
  - 60/40 – 80/20 Allocation Range of Equities to Fixed Income





“There are some who start their retirement long before they stop working.”

Robert Half

# The Secret

- Reserves
- Diversification
- Blended Tax Rate
- System
- Discipline

***Do this two-five years before retirement.  
Review annually.***

# **IRS Rules and Distribution Planning**

# IRS Rules for Retirement Plan Distributions

- Don't Pay Out Too Early (59 ½ )
  - 10% Penalty Tax on Early Withdrawal
- Don't Pay Out Too Late (70 ½)
  - 50% Excise Tax on Failure to Take Minimum Withdrawal
- Don't Pay Out Too Little (RMD)
  - 50% Excise Tax on Failure to Take Minimum Withdrawal
- Don't Have Any Left (IRD and Estate Tax)
  - 50-80% Tax On Accumulated Assets

# Pre 59 ½: Section 72T

- Annual Payments
- 5 Years or 59 ½, Whichever is Longer
- Based on Life Expectancy
- Reasonable “Rate of Return”
  - Life Expectancy
  - Amortization
  - Annuitization

*Substantially Equal  
Periodic Payments  
A Way to Avoid the  
10% Penalty Tax*

# Pre 59 ½: A Way to Avoid the 10% Penalty Tax

- Age 55
- Participation in a Plan
- Separation from Service
- Retirement
- Disability
- Job Change

# Distribution Options

- Relevant Points
  - Distribution Taxed as Ordinary Income in Year Received
  - Distributions Taxable at Recipient's Tax Rate
  - Mandatory at Age 70 ½
  - Accounts May Be Combined for Calculation

# Distribution at Death

- Prior to 70 ½
  - 5 Year Rule or
  - Designated Beneficiary: Life Expectancy

# Distribution at Death

- After 70 ½
  - Remaining account must be distributed at least as rapidly as the current method of distribution.
  - Without Designated Beneficiary: One Year



# Spouse as Beneficiary (Free Rein or Reign?)

- Rollover: Postpone Income and Estate Taxes

or

- Annual Life Expectancy Distribution

*Can start over with new beneficiaries.*

# Non-Spousal Beneficiary

- Non-spouse may be designated beneficiary
  - Triggers IRD on lump sum
- Multiple beneficiaries permitted
  - More than one beneficiary
  - Can be divided into separate IRAs so each beneficiary could use their own life expectancy
  - Stretch IRA

# Designating Beneficiaries

*Designating Beneficiaries May Be Your Single Most Important Planning Step*

*Can By Pass Estate Plan*

- Primary
- Contingent
- Successor
- Restricted



**“If you would be wealthy, think of saving as well as getting.”**

Benjamin Franklin

# Ultimate Distribution Planning

# Gift and Estate Tax

- Tax is incurred at time of transfer (Life or Death)
- Transfer between spouses are not subject to tax
- Exclusions
  - Annual: \$14,000 Per Donor, Per Donee
  - Lifetime: \$5,000,000
  - Portable to Surviving Spouse

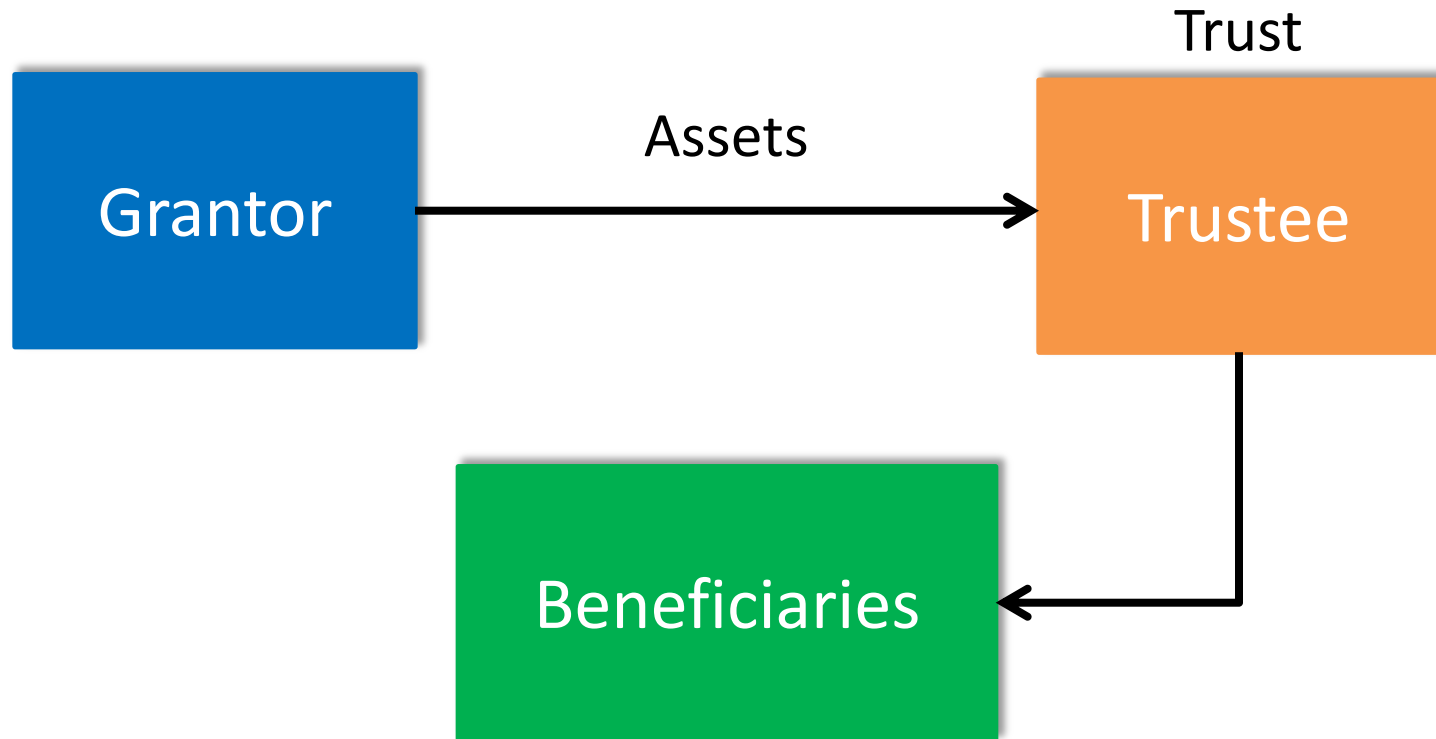
# Basic Documents

- Will
- General Power of Attorney
- Medical Power of Attorney
- Living Will
- Trusts

# Ways of Transferring Assets Upon Death

- Joint Accounts
- Beneficiary Designation
  - IRA, Annuity, Life Insurance, TOD, POD
- Will
- Trust

# A Matter of Trust





# Types of Trusts

- Revocable
- Irrevocable

# To Trust or Not to Trust

## Pros

- Greater Control
- Creditor Protection
- Special Needs
- Second Marriage
- Spend Thrift Concerns

## Cons

- Trust Must Remain Open for LE of All Beneficiaries
- Administrative Cost
- Must Be a See Through Trust
- Prevents Stretch Option
- Taxes

# Types of Trusts

- Marital Trust (A Trust)
- Family Trust (B Trust)
- Life Insurance Trust (ILIT)
- Charitable Trust
- Personal Residence Trust
- Offshore Trust

# Big Mistake

- Not Coordinating Asset Title with Estate Plan
- Joint Tenancy
- Retirement Plan Beneficiary Designation
- Annuity Owner and Beneficiary

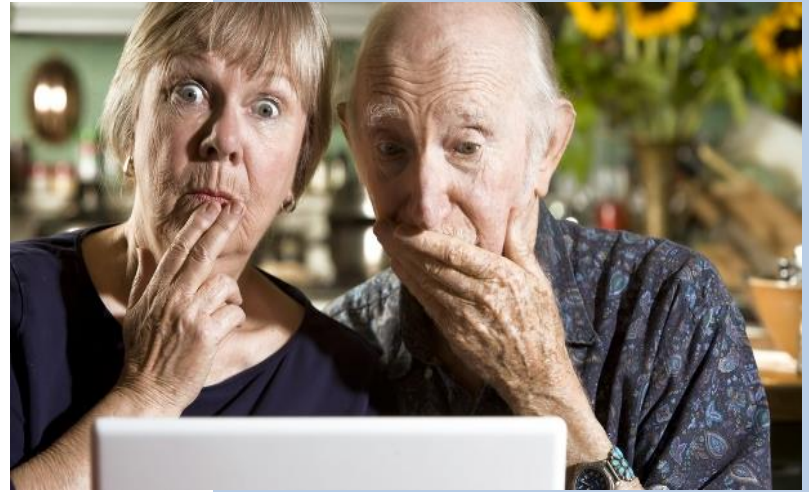


**“When you know better  
you do better.”**

Maya Angelou

# Big Mistake

- Not Understanding Life Expectancy 19vs28
- Not understanding Inflation
- Underestimating the need for growth
- Assuming all assets have the same time horizon
- Thinking that the President, Congress and the government constitute and investment strategy



**“When you know better  
you do better.”**

Maya Angelou

# Big Mistake

- Not having a strategy for income in retirement (when to trigger which assets)
- Not understanding the need to coordinate
  - Tax Planning, Investment Planning
  - Retirement Planning and Estate Planning



**“There is only one success – to be able to spend your life in your own way.**

Christopher Morley

# Working Effectively with a Planner

- What do you need?
- What do they do?
- How do they get compensated?
- What is their process?
- How do they communicate?

# What do you need?

- Retirement Planning
- Investment Advice
- Stock Picking
- Insurance Planning
- Comprehensive Financial Planning
- Estate Planning



**“Nobody gets to live life backward. Look ahead, that is where your future lies.”**

Ann Landers



# Understanding Their Business

- What is their primary business?
- Do you look like their typical client?
- Where is their attention focused?
  - Growth vs. Service
- Do they have a Succession plan?



**“An investment in knowledge always pays the best interest.”**

Benjamin Franklin

# How are they compensated?


- Hourly (Usually for Planning)
- A Percent of Assets Under Management
- Commissions on the Sale of Product
- Annual Retainer
- Combination of the Above
- It is your right to know. Discuss any potential conflicts of interest.

# What is their Process?

- What is their planning process?
- What is their investment process?
- How do they add value?
- How often are accounts reviewed?
- How deep is the team and their experience?

# The List...Revisited

- Do a Budget
- Design Your Investment Strategy
- Review Title on Assets
- Review Beneficiary Designations (Contingent)
- Review Retirement Plan Documents
- Review Life Insurance
- Review Estate Plan / Power of Attorney



**“I find it fascinating that most people plan their vacations with better care than they do their lives.”**