Four Pillars of a Successful Retirement

Are You Ready?

Mark Reynolds, CFP®
Mark Reynolds and Associates

123 Main Street, Suite 100
San Diego, CA 92128
Phone: 800-123-4567
Fax: 800-123-4567
www.markreynolds.com

REYNOLDS
& Associates

Introduction

Are You Prepared for One of the Biggest Transitions in Your Life?

Retirement is usually seen as life's reward for working hard, supporting a family, and saving your hard-earned dollars. You celebrate with a big party and then move into this exciting, new life stage. Is that how you envision it?

In the past, retirement often meant switching from a paycheck to a pension check, contacting Social Security to get benefits in motion, and maybe supplementing that income with the proceeds from downsizing a home or renting a property.

But times have changed. Retirement can now mean piecing together a big puzzle, composed of a variety of different resources, to ensure you have enough to live on — and maybe have something left to pass on to heirs if that's one of your goals.

Do you have the **time**...

...the **desire**...

...and most important, the **knowledge**...

...to build a financial strategy for retirement?

Four Pillars of a Successful Retirement

These four factors could affect your retirement lifestyle:

Social Security	Deciding carefully when and how to tap your Social Security benefits
Income Strategy	Developing an income strategy that covers your everyday expenses and basic needs, funds your "wants," and still leaves room for "surprises"
Tax Planning	Making sure that Uncle Sam doesn't get more than his fair share
Legacy Planning	Planning for your later years and beyond, especially if one of your objectives is to leave a legacy

Understanding a little more about the nuances within each pillar — and how they relate to each other — can help you become better prepared for what lies ahead.

Introduction

Three Risks

Your ability to live the retirement lifestyle you want — and deserve — may depend on how well you're able to prepare for and manage these three risks:

- Inflation, or the rising cost of living
- Health-care costs
- Unpredictability of the financial markets

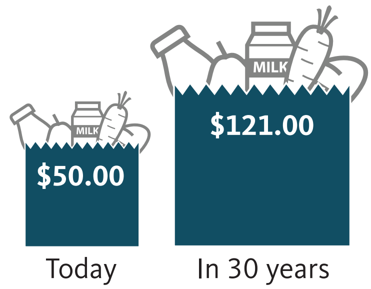
Why Inflation Really Matters

A healthy 65-year-old man can expect to live to age 83; and a healthy 65-year-old woman can expect to live to age 86.

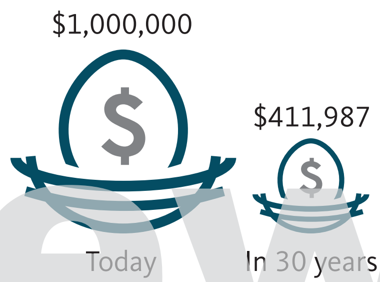
Source:
National Center for Health Statistics Data Brief, Number 293, December 2017

Inflation

Inflation, the rise in consumer prices over time, has an effect on everything — from the cost of a car and a home, to energy prices, to a bag of groceries. Inflation is also the reason your money loses purchasing power over time.



Consider how a 3% inflation rate over 30 years could affect the cost of a $50 bag of groceries — or the purchasing power of a $1 million retirement nest egg.



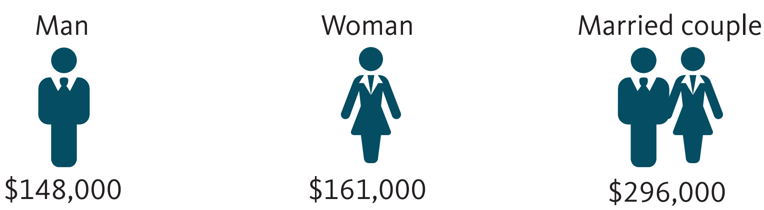
The cost of groceries would more than double, and the $1 million nest egg would have the purchasing power of $411,987!

These hypothetical examples of mathematical principles are used for illustrative purposes only. Actual results will vary.

Rising Costs of Health Care

Many people underestimate the potential cost of health care in retirement, forgetting the premiums, copays, deductibles, and prescription drugs they might have to cover — even with Medicare, which typically covers approximately 60% of the average retiree's health-care costs.

If Medicare benefits remain unchanged, it's estimated that 65-year-olds who retired in 2018 might need the following amounts to cover their health expenses in retirement (assuming median drug expenses).



And consider that medical costs could be even higher if you have a chronic illness or high prescription drug costs. Further, other costs such as dental expenses, glasses, and hearing aids aren't captured in these figures.

Source: Employee Benefit Research Institute, 2018

Introduction

Long-Term Care

Another risk you might face is the need for long-term care. Long-term care refers to the assistance needed to manage a chronic illness, disability, or cognitive impairment. It includes nursing home care as well as care provided in an assisted-living facility, adult day-care center, or even at home.

The statistics surrounding long-term care can be scary. Consider that:

- More than half of people over age 65 will need some form of long-term care during their lifetimes
- Currently, the average annual cost of a semi-private room in a nursing home is $82,128, and in many states the cost is much higher

Unfortunately, Medicare and traditional medical insurance offer little or no relief for this type of care. And if you qualify for Medicaid by spending down your assets, it typically means you lose some control over where you receive care and, subsequently, the type of care offered.

Source: U.S. Department of Health and Human Services, 2018

Rising Costs

If long-term care costs rose at just 3% a year, a one-year stay in a nursing home would top $149,000 in 20 years.

This cost projection is a hypothetical example of mathematical principles and is used for illustrative purposes only. Actual results will vary.

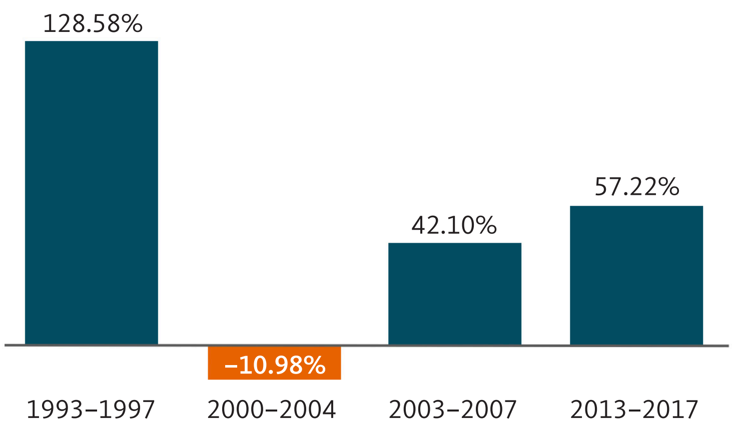
Unpredictability of the Financial Markets

It's a hard truth of investing: The financial markets change, often unexpectedly and sometimes dramatically. Generally, it's a case of *when* and not *if* it happens.

And *if* it happens *when* you're about to retire — or when you're in the midst of drawing down your investments for income — it can be unsettling to say the least.

The following outcomes illustrate the cumulative returns of the S&P 500 composite stock index over four different five-year periods. As you can see, they produced vastly different results. Although the cumulative returns for three periods were positive, the five-year period from 2000 through 2004 had a *negative* cumulative return.

S&P 500 Cumulative Returns



Source: Thomson Reuters, 2018, for the periods 1/1/1993 to 12/31/1997; 1/1/2000 to 12/31/2004; 1/1/2003 to 12/31/2007; and 1/1/2013 to 12/31/2017. The S&P 500 composite index total return is generally considered to be representative of U.S. stocks. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Social Security

Income That Will Last a Lifetime

One of the greatest concerns of retirees and near-retirees is the fear of outliving their assets. Although traditional pensions once provided a steady income for many retirees, the number of companies offering such plans has declined dramatically.

Social Security offers benefits similar to a pension, plus a lot more. Not only does it provide a guaranteed income stream, but it also offers longevity protection, spousal protection, and even some inflation protection. Yet the ultimate value of Social Security benefits is often overlooked.

For example, did you know that if you delay claiming benefits past full retirement age, you could increase your payments by as much as 8% a year? It would be hard to find a risk-free investment that currently offers that kind of payout.

Whether you're single, married, divorced, or widowed, there are strategies that might increase the monthly and lifetime benefits you receive from Social Security. It is important to understand the claiming options that may be available to you — and to avoid costly mistakes that could reduce the Social Security income that you, and possibly your spouse, receive.

History Behind America's Retirement Safety Net

The Old-Age, Survivors, and Disability Insurance (OASDI) program, which is the official name of Social Security, was created as part of Franklin Delano Roosevelt's New Deal legislation during the Great Depression. It was signed into law in 1935 and is now the federal government's largest single program.

Social Security benefits were intended as a *supplement* for retirees, not as a sole means of support. But over time, many retirees — as well as some disabled individuals and families of deceased workers — have become very dependent on their monthly Social Security payments.

- Social Security is the *single largest source* of retirement income for 62% of retirees

Source: Social Security Administration, 2017

Claiming Strategies

There are many combinations for how a married couple can claim Social Security retirement benefits and spousal benefits, as well as other filing strategies.

According to the Social Security Administration, the claiming-age combinations that married couples might choose range from nearly 10,000 to 40,000, depending on their respective birth years.

How Does Filing Early or Later Affect the Monthly Benefit?

Many people automatically associate age 65 with retirement. But full retirement age (FRA), when you are entitled to receive 100% of your full retirement benefit — also called the primary insurance amount or PIA — now ranges from 66 to 67 for those born after 1942.

You can see here how full retirement age is changing based on year of birth, and how claiming Social Security early at age 62 or delaying benefits up to age 70 would affect your monthly payouts.

Year of birth	Full retirement age (FRA)	Age 62 benefit	FRA benefit	Age 70 benefit
1943–54	66	75.00%	100%	132.00%
1955	66 and 2 months	74.17%	100%	130.67%
1956	66 and 4 months	73.33%	100%	129.33%
1957	66 and 6 months	72.50%	100%	128.00%
1958	66 and 8 months	71.67%	100%	126.67%
1959	66 and 10 months	70.83%	100%	125.33%
1960 & later	67	70.00%	100%	124.00%

At age 62, the amount you receive each month would be permanently reduced by 25% to 30% of the full retirement age amount, depending on the year you were born. With each month you wait to claim benefits after age 62, your monthly benefit increases slightly.

By electing to start retirement benefits at your full retirement age, you would be entitled to 100% of your primary insurance amount.

For each month you wait to claim Social Security *after* reaching full retirement age, your monthly benefit would continue to increase until you reach age 70, when you would be entitled to receive up to 132% of your full benefit (depending on year of birth). By waiting past full retirement age, you earn delayed retirement credits. There is no advantage to waiting longer than age 70 to file for benefits.

Dependent Benefits

If you're receiving Social Security retirement benefits, your unmarried children who are under age 18 (or up to age 19 if your child is a full-time student who has not graduated from high school) may be eligible to collect Social Security dependent benefits based on your earnings record.

Social Security

Maximizing Lifetime and Survivor Benefits

There are thousands of different combinations for how a married couple can claim Social Security. This hypothetical example focuses on three different claiming strategies, and how a couple could maximize their lifetime Social Security income. Because women tend to live longer than men, the impact on a wife's survivor benefit could be significant if her spouse is the higher earner and he predeceases her.

Paul and Janet are 62 years old and have been married for 35 years. If they both wait until full retirement age (66) to claim Social Security, Paul would receive $2,000 a month and Janet would receive $1,800 based on their individual earnings histories. If they claim benefits early at age 62, Paul would receive $1,500 a month and Janet would receive $1,350.

These three scenarios show the impact on their combined monthly and lifetime Social Security benefits, assuming Paul dies at age 80 and Janet dies at age 90.

Scenario 1 Both Janet and Paul claim benefits at age 62	**Scenario 2** Janet claims at age 62, Paul waits until age 66	**Scenario 3** Janet claims at age 62, Paul waits until age 70
Combined monthly benefits: Years 1+: $2,850	Combined monthly benefits: Years 1 to 4: $1,350 Years 5+: $3,350	Combined monthly benefits: Years 1 to 8: $1,350 Years 9+: $3,990
Paul dies at age 80		
Total benefits: $615,600	Total benefits: $627,600	Total benefits: $608,400
Monthly survivor benefit: $1,500	Monthly survivor benefit: $2,000	Monthly survivor benefit: $2,640
Janet dies at age 90		
Lifetime benefits: $795,600	Lifetime benefits: $867,600	Lifetime benefits: $925,200

The first scenario shows the impact if both claim Social Security at age 62, the second scenario shows the result if Janet claims at 62 and Paul waits until age 66 (full retirement age), and the third shows the result if Janet claims at 62 and Paul waits until age 70 to receive his maximum $2,640 benefit.

If Paul dies at age 80, Janet's monthly survivor benefit would be only $1,500 under the first scenario, $2,000 under the second, and $2,640 under the third (annual amounts are $18,000, $24,000, and $31,680, respectively). Although the couple's combined benefits at the time of Paul's death would be highest under the second scenario, the third scenario would provide the highest combined lifetime benefits if Janet were to live to age 90.

This hypothetical example is used for illustrative purposes only. Actual situations will vary.

Living into Your 90s

More than one in three 65-year-olds today will live to age 90, and more than one in seven will live to age 95.

Source: Social Security Administration, 2017

Income Strategy

What Happens When You Retire?

- Financial focus shifts
- Change from *accumulating* assets to *withdrawing* assets
- Need to generate a steady income while maintaining principal

Your primary objective is to live your desired lifestyle without running out of money.

Three Steps to Developing an Income Strategy

There are three important steps to developing a retirement income strategy.

1. **Size up current situation and sources of income** — examining your lifestyle choices and the sources of income that are available to you
2. **Refine your investment mix** — balancing your needs for both income and continued growth throughout your retirement
3. **Choose a plan for tapping your retirement assets** — one that will help your money last as long as you do

Lifestyle

Depending on your vision for retirement and other factors, such as your health and any debt you carry, you could need anywhere from 70% up to even 100% of your pre-retirement income to live comfortably in retirement.

Size Up Current Situation

To size up your current situation, you'll need to answer some questions:

- **How do you want to spend your retirement?**
  Do you know where you will live?
  Do you envision taking at least one major trip each year?
  If you have more leisure time, what hobbies and activities will you pursue?
- **How will you support your desired standard of living?**
- **What will you do if you haven't built the nest egg you need?**
  Can you postpone retirement and work longer?
  Is there time to increase your assets by saving more and continuing to pursue investment growth?
  Will you need to modify your lifestyle in order to make ends meet?

Hopefully, the choices you have made in the past will enable you to live the lifestyle you have envisioned. Yet it's also important to remember that the choices you make *when* you retire will play a significant role in how you spend your retirement years.

Income Strategy

Investing in Retirement

After you've targeted an asset allocation that's appropriate for your objectives and risk tolerance, it's important to choose a well-diversified mix of investments. Possible choices include:

- **Cash alternatives** for preservation of principal
- **Bonds** for stability and income
- **Stocks** for growth potential
- **Mutual funds** and **exchange-traded funds** for a variety of goals

It's also important to diversify *within* asset classes. For example, you might split your equity holdings into growth and value, small-cap and large-cap, and international stocks. If you have a large percentage of your portfolio in company stock, which can be risky at any stage of life, consider reallocating into different investments.

The return and principal value of stocks, bonds, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. Investing internationally carries additional risks, such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Income-Producing Financial Vehicles

- Bonds
- Income-oriented mutual funds and exchange-traded funds
- Dividend-paying stocks
- Tax-exempt investments

Retirement Costs

When retirees were asked about their overall expenses and spending in retirement, 37% said they were higher than expected, 52% said they were about what they expected, and just 8% said they were lower than expected.

Source:
Employee Benefit Research Institute, 2018

Choose a Plan for Tapping Assets

You've worked long and hard to accumulate retirement assets. To make the most of your money, you will need to make decisions about where you should keep your funds, how to tap into them, how much you can afford to withdraw each year, and which assets to spend first.

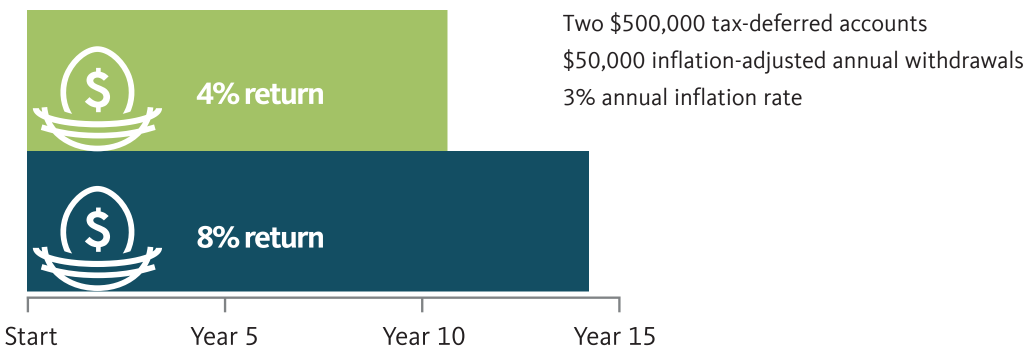
How Long Would a Retirement Portfolio Last?

Before you make any decisions about tapping your retirement assets, it might help to look at several factors that could influence a portfolio's staying power: the portfolio's original value, inflation, investment returns, tax rates, and the annual withdrawal amounts.

The chart below compares two tax-deferred portfolios to show how long $500,000 might last in retirement, assuming 4% and 8% annual rates of return and $50,000 annual withdrawals (adjusted for 3% annual inflation). (Withdrawals of $50,000 would provide an after-tax income of about $30,000 to $35,000 for a typical person.)

A $500,000 account earning 4% would last almost 11 years. A $500,000 account earning an 8% rate of return would last more than 14 years.

As you can see, a higher return can have a substantial impact on how long retirement funds will last. Think of this in the context of how long you expect to live, and you'll see how important it can be to help make sure that your money lasts throughout your lifetime.



This hypothetical example is used for illustrative purposes only and does not reflect the performance of any specific investment. The principal values and yields of securities will fluctuate with changes in market conditions. Investments, when sold, may be worth more or less than their original cost. Taxes, fees, and other expenses were not considered. Withdrawals from tax-deferred accounts are taxed as ordinary income; early withdrawals prior to age 59½ may be subject to a 10% income tax penalty. Rates of return will vary over time, especially for long-term investments. Investments seeking to achieve higher rates of return involve greater risk. Actual results will vary.

Withdrawal Decisions

Adjusting your withdrawal rate could help your portfolio last longer.

Tax Planning

Taxes, like inflation, are an ever-present factor that have the potential to siphon away your retirement assets over time. That's why it's vital to understand the basic tax rules that will apply during your retirement years.

A good understanding of the applicable tax rules can help you avoid costly mistakes.

Tax Legislation

Tax rules change with some frequency, which is one of the reasons why factoring taxes into your retirement planning is particularly difficult. The Tax Cuts and Jobs Act, a sweeping $1.5 trillion tax-cut package that dramatically reshaped the tax landscape, passed in late 2017. The legislation made significant changes to the tax rules that govern businesses and relate to individuals.

Most of the tax changes were effective as of January 1, 2018. While most of the business tax changes are permanent, changes affecting individuals are scheduled to expire at the end of 2025 (unless changed by future legislation).

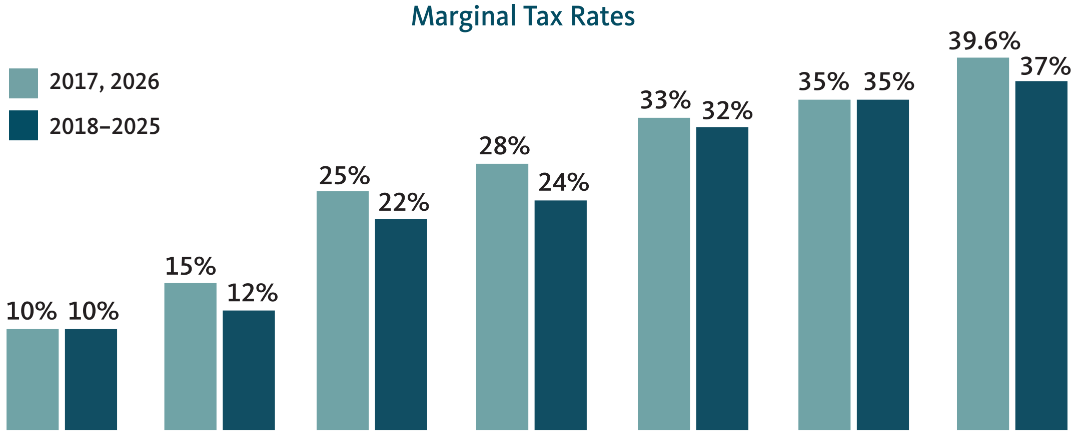
How Will Your Income Be Taxed?

The way in which your income is taxed depends on what kind of income it is — for example, income from wages or capital gains — and in some cases what kind of account or vehicle is generating the income.

Most of the income you receive, other than long-term capital gains and qualified dividends, is *ordinary income*. Tax on ordinary income is based on seven marginal income tax brackets. Because the United States has a progressive tax system, the higher your income, the higher the tax rate that applies to the next dollar of income that you receive.

Ordinary income includes wages, interest, rents, royalties, business income, gambling winnings, and any taxable portion of Social Security benefits.

Marginal Tax Rates



The Tax Cuts and Jobs Act lowered all but two of the seven marginal tax brackets that applied before 2018. Because the individual changes made by the legislation expire at the end of 2025, the pre-2018 rates will come back into effect in 2026 (unless extended). The legislation also made some significant changes to the ranges of taxable income covered by the different rates.

Tax Planning

How Taxes Affect Retirement

The more flexibility and discretion you have in planning your retirement income, the more significant these tax considerations are, and the more they should factor into your overall planning.

For example, it might make sense in some cases to delay claiming Social Security benefits, drawing income from taxable investment accounts and retirement plan accounts instead to provide the income level you want. Why? If 50% to 85% of your Social Security benefits are going to be taxed, you might be better off postponing benefits and drawing down other assets in your early retirement years. In addition to potential tax savings, you'll get a larger annual Social Security benefit.

If you have a Roth IRA or Roth employer plan account in addition to traditional plans, you might consider a retirement withdrawal plan that factors in overall tax minimization. Or if you believe that high RMDs from traditional IRAs and employer-sponsored plans after age 70½ will push you into a higher tax bracket or make Social Security benefits taxable, you might evaluate drawing down tax-deferred savings accounts in the earlier retirement years, or even evaluate a possible Roth IRA conversion.

State Income Taxes

Nine states have no income tax — Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. For retirees, this means no state income tax on Social Security benefits, retirement plan withdrawals, and pension payouts.

Source:
Kiplinger, March 5, 2018

Other Major Changes in the Tax Cuts and Jobs Act

When you calculate your federal income tax, you generally have a choice between taking the standard deduction — a fixed dollar amount that's based primarily on your filing status — or itemizing allowable deductions on Schedule A of IRS Form 1040.

EITHER

Standard Deduction | Itemized Deductions

Standard Deduction and Personal Exemptions

The Tax Cuts and Jobs Act roughly doubled prior standard deduction amounts and continued the additional standard deduction amounts for those who are blind and/or age 65 and older. However, the law eliminated the deduction for personal exemptions ($4,050 in 2017). That means a married couple with no children can no longer deduct $8,100 in personal exemptions ($4,050 x 2), but their standard deduction ($24,400 in 2019) is significantly higher than it was.

Standard Deduction Amounts

Filing status	2017	2019
Single or married filing separately	$6,350	$12,200
Head of household	$9,350	$18,350
Married filing jointly	$12,700	$24,400

The additional standard deduction amounts for those age 65+ and/or blind are $1,650 (single or head of household) and $1,300 for other filing statuses in 2019.

Changes in the standard deduction and personal exemptions are scheduled to expire after 2025.

Legacy Planning

Estate Planning Basics

Your estate comprises all the assets you own, including:

- Bank accounts
- Investments
- Real estate
- Business interests
- Life insurance policies
- Other personal property and valuables

You don't have to own a mansion on the hill to have an estate, and you don't need to be wealthy to have a need for estate planning.

Why Is Estate Planning Important?

Without an estate plan in place, you would be giving up control of the distribution of your assets. This might result in your assets passing to unintended beneficiaries, such as the government in the form of taxes.

Goals of Estate Conservation

- Manage wealth during your lifetime
- Distribute assets upon your death
- Maintain control of your assets

Wealth management is at the heart of a sound financial program. There are steps you can take during your lifetime that may benefit and help protect the beneficiaries of your estate. By choosing the appropriate strategies and distribution methods, you can make arrangements for the organized and efficient distribution of your estate assets, while maintaining the level of control that appeals most to you.

Benefits of Estate Conservation

Taking the necessary steps to conserve your estate offers a number of important benefits. First, you can help avoid conflicts among your family members. If all your assets are accounted for and your wishes are spelled out in detail, the chance that anyone will contest your estate plans will be reduced.

Second, you can avoid the delays of probate and other proceedings by addressing these issues while you're alive, rather than forcing your heirs to endure some drawn-out procedures after you're gone.

And finally, you can avoid some legal and court expenses by having a well-organized estate with properly drafted legal documents.

Legacy Planning

Last-Survivor Life Insurance Policy

- Insures two or more individuals
- Pays benefit upon death of the last-surviving insured party
- Premiums are often lower than the cost of two (or more) individual policies

Unlike traditional life insurance policies, a last-survivor life insurance policy insures two or more individuals (often a married couple), with the beneficiaries being the children or other heirs.

Because the policy pays the benefit only after the death of the last-surviving insured party, the premiums are often lower for this type of policy than they would be for the cost of two (or more) individual policies.

For your heirs, the advantage of receiving the benefit when the last-surviving party dies is ready cash to help pay estate taxes and other financial obligations. This could help preserve a larger portion of the estate for them and or leave a lasting legacy.

If you plan to make a charitable gift, you might want to learn more about the charity's operations, including the percentage of contributions that go toward charitable work versus administration and fundraising expenses.

If you are going to itemize deductions, make sure the charity is qualified under IRS rules. You can search the IRS database at ***irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.***

Charitable Giving

Charitable giving can benefit both the giver and the receiver. There are a number of tax advantages associated with charitable giving — some could benefit you during your lifetime, and others may benefit your estate and heirs.

Outright gift. If you make an outright gift to a charitable organization, the gift may be tax deductible (within certain limits) if you itemize deductions on your tax return.

To receive the deduction for donations made using cash, a check, or a credit card, you must have documentation, such as a receipt, canceled check, credit-card statement, or a written communication from the charitable organization showing the amount of the contribution, the date it was made, and the name of the charitable group. Noncash gifts generally require even more substantiation.

Strategic giving. Giving strategically using a trust can benefit both you and the charitable organization, as well as your heirs:

- May enhance the value of your gift to charity
- Could help reduce your income tax liability
- May generate income during your lifetime
- May help you leave a greater legacy

The method you choose will have different income tax, gift tax, and estate tax consequences.