

RETIREMENT TRAPS and WILL I HAVE ENOUGH?

How to protect my heirs

Download the handout from my website:
bob-adams.net/retirement
(several website addresses are available)

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In the beginning...

1. First some advice: grandkids
 - Use your influence as a grandparent
2. Will I have enough?
 - How long will I need it
3. How to protect my heirs
 - IRA traps
 - Write 'em a letter
4. Some general tips

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In the beginning...

- Teach the importance of saving
- Teach what to invest in
- Teach living expenses must be < than income
 - After saving 10-15% -- automatic deposit
- Teach credit card debt is not acceptable
 - Making the minimum payment is a road to financial ruin

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Retirement: *Planning*

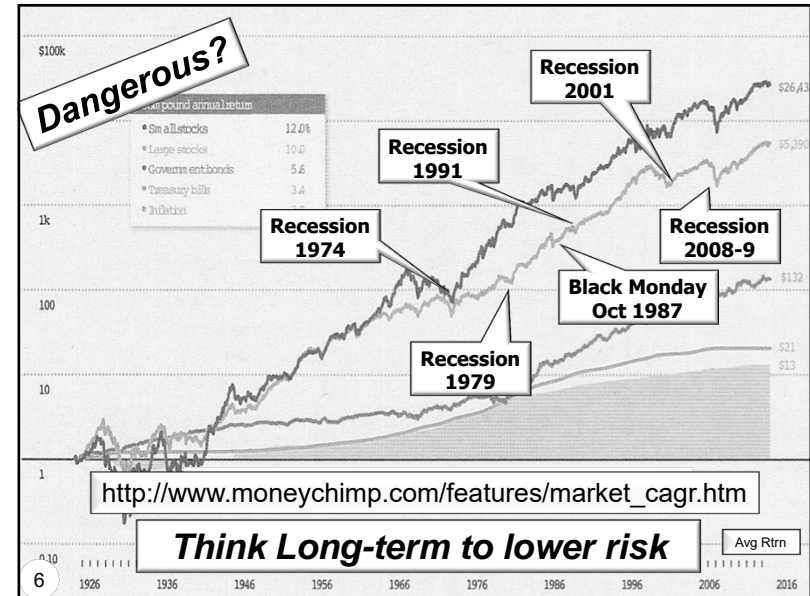
- In 1975 85% of workers had a workplace retirement plan
 - Provided by company or labor union
- Today: less than 30%
 - Most companies converting to 401(k) plan, etc.
 - Small matching contribution from company
- *THEY'RE ON THEIR OWN*

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Where to invest:

- Stock market offers the highest return
 - Managed mutual funds?
 - Don't beat the market
 - Index funds
 - Always match the market
 - Individual companies?
 - Can beat the market
 - Not for the average investor

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http://www.moneychimp.com/features/market_cagr.htm

Year and Return (%)

2016	11.92
2015	1.31
2014	13.81
2013	32.43
2012	15.88
2011	2.07
2010	14.87
2009	27.11
2008	-37.22
2007	5.46
2006	15.74
2005	4.79

Date Range

Jan 1 1925 to Dec 31 2016

Adjust for Inflation

Include Dividends

Calculate

"Average" return: 12.17 %
 Annualized return (= True CAGR): 10.22 %
 Standard Deviation: 20.06 %
 \$1.00 grew to: \$ 7,741.96

S&P 500 returns (dividends included): [Robert Shiller](#) and [Yahoo! Finance](#)

Those with their first paycheck (and the average investor)

- Invest in an index fund:
 - S&P 500
 - Dow Jones Industrial Average
 - NASDAQ 100

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Retirement: **MONEY & Time**

- Questions:
 - How much am I spending?
 - How much will I need?
 - How long will I need it?
 - When should I start it?
 - IRA Traps

Retirement Planning

- Budget form – what am I spending
- Spreadsheet analysis – what do I need
 - How long will I need it
- Additional Income sources – social security
 - Estimated Social Security payments calculator
 - Life Expectancy calculator

<http://www.socialsecurity.gov/planners/lifeexpectancy.htm>

How much do I spend

	January	February	March	April	May	June	July	August	September	October	November	December	Ann Total
Actual Income	\$6,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6,000
Actual Cost	\$3,690	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$3,690
Actual Balance	\$2,310	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,310
	January	February	March	April	May	June	July	August	September	October	November	December	
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	
Monthly Income													
Income 1	\$5,000												
Income 2	\$1,000												
Other													
Total	\$6,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Housing	\$2,000												
Rent													
Electricity	\$75												
Heat	\$70												
Phone	\$25												
Water/Utilities	\$60												
Cable & Internet	\$150												
Maintenance	\$50												
Insurance	\$40												
Total	\$2,470	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transportation													
Vehicle Payment	\$400												
Insurance	\$100												
Fuel	\$100												
Maintenance	\$30												
Other													
Total	\$630	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Food													
Groceries	\$200												

How much will I spend

<http://bob-adams.net/retirement>

Retirement – Do I Have Enough – Traps to Avoid

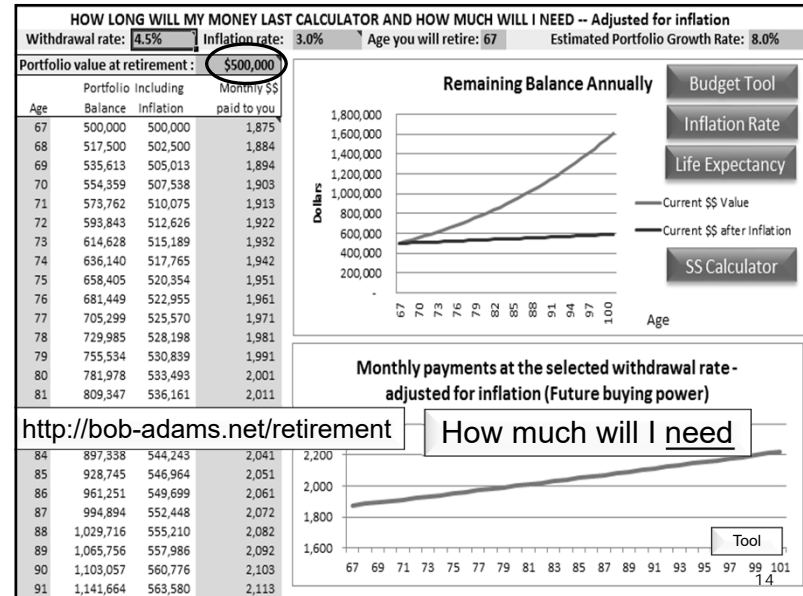
Bob Adams - Bob.at.seattle@gmail.com - www.bob-adams.net

Key Dates - Durations - Estimates		
Year (yyyy)	1942	Year born
Age (nn)	72	Current age
Dollars	\$843,000	Current retirement fund value
Dollars	\$0	Current annual salary or expected income in retirement
Dollars	\$35,000	Total expenses after retirement
Rate	3.00%	Inflation rate
Years (nn)	5.8	Economic downturn frequency
Rate	11.0%	Economic downturn rate
Pre Retirement Planning		
Age (nn)	65	Age at retirement
Year (yyyy)	2007	Year of retirement
Year(s)	-6	For you, this number represents years in retirement
Rate	0.0%	Annual wage growth until retirement
Dollars	\$0	Monthly investments until retirement
Rate	8.0%	Investment growth rate before retirement
Dollars	\$0	Current adjusted annual salary or income at retirement
Dollars	\$35,000	Annual expenses inflated to estimated retirement date
What is Needed v.s. What You Have		
Dollars	-\$798,433	Net worth needed to retire without depreciating principle
Dollars	\$843,000	Net worth @ retirement
Rate	6.0%	Investment growth rate after retirement
Post Retirement		
Age (nn)	97	Estimated age at death
Age (nn)	32	Years expected to live in retirement
Dollars	\$26,453	Annual payment received (401(k), Portfolio, etc.) after taxes
Rate	0.0%	
Dollars	\$32,500	
Age (nn)	65	Age starting social security
Rate	2.0%	Social Security growth rate (COLA)
Dollars	\$0	Post retirement annual income - if any
Years (nn)	0	Years working after retirement - if any
Dollars	\$3,437,145	Net worth @ death

<http://bob-adams.net/retirement/>

Budget Form
 Inflation Rate
 Downturn Frequency
 Contraction Rate

Projected Longevity
 SSA Benefits
 COLA Values



How Long Will I Need It: Longevity Calculator

<http://media.nmfn.com/tnetwork/lifespan/index.html#13>

- Detailed and fun—no email address (recommended)

<https://rslic.metlife.com/lic/corpLongevity.do>

- Medium detailed—no email address

<https://www.livingto100.com/calculator/start/1>

- Detailed—requires email address

<https://apps.bluezones.com/en/vitality>

- Detailed—requires email address

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Online APS:

- Type in your spending and income
- BudgetSimple analyzes your finances
 - Shows spending patterns—where your \$\$ are going

www.budgetsimple.com
Android - iPhone

- Monitor bills, bank accounts, credit cards
 - Alerts you when payments due and funds are low

www.check.me

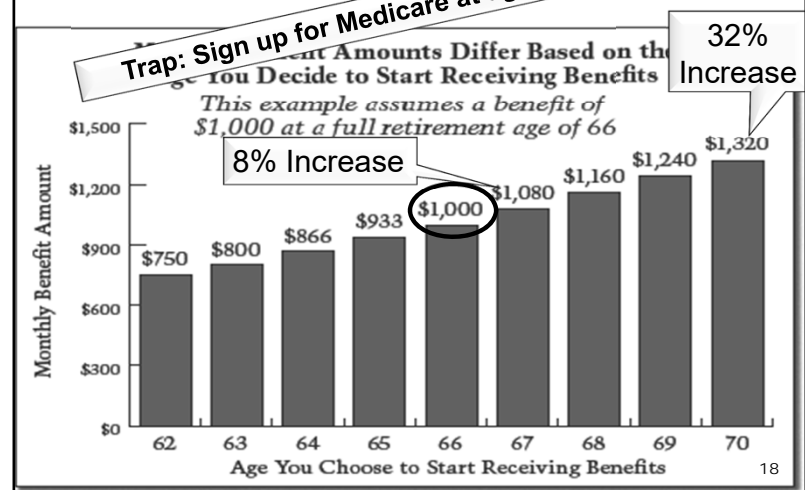
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Retirement Planning

- What income will you need annually
 - \$50,000? (Double it every 24 years)
 - Minus Social Security
 - Perhaps \$25,000 annually from your 401(k)
 - Maximum withdrawal 4.5%
- Total Amount needed in 401(k), IRA
 - 10 X current gross income

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Soc Sec—When to Start



401(k): Cost

- Article on 401(k) fees. 0.78% mean average
 - If over 1% complain to your company
- http://blogs.smartmoney.com/encore/2012/09/10/among-401k-investors-a-big-information-gap/?link=SM_hp_retirement
- 38% didn't think they pay a fee
- 50% didn't know they paid a fee
 - Fees: Mutual Fund fee, Company fee
 - <http://americasbest401k.com/fee-checker/>

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IRA Inheritance Traps --

- One wrong move and the entire IRA is taxed rather than tax-deferred
 - Here's what you need to know...

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IRA Traps -- Spouse

- You're a spouse who inherits an IRA
 - "Retitle" it by putting it in your name
 - Or
 - Roll it into an IRA in your name
 - Withdrawals will be required when you reach age 70 ½

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IRA Traps -- Spouse

- If younger than 59 ½ 10% tax on any payout unless: retitled as an Inherited IRA
 - "*John Jones deceased (date) for benefit of Mary Jones, beneficiary*"
 - Can withdraw without penalty
- At age 59 ½ retitle in Mary's name only
 - If not done—required withdrawals begin when deceased spouse would have reached 70 ½

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IRA Traps -- Children

- Do not roll inherited IRA into child's IRA
 - Retitle it: "John Joe's IRA deceased (date) for the benefit of Bob Adams, beneficiary"
- Each child retitles the IRA
 - At age 59 ½ retitle into child's name only
- Inherit a 401(k)?
 - Retitle it as an inherited IRA

The Retirement Savings Time Bomb...and How to Defuse it
Ed Slott - Syndicated Columnist

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Medicare Trap -- You

- At age 65 sign up for Medicare
 - (Unless continuing to work for a company with 20+ employees)
 - Delaying may cost more and be delayed
- Delay taking Social Security if possible: +8%
- If you have private health insurance:
 - Check to see how Medicare fits into your plan
 - Do not cancel private plan until Medicare starts

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Common sense letter:

Write a letter to your spouse and children containing instructions

- Funeral arrangements and wishes
 - Resuscitate instructions
 - What's to be done with your body
- Where are important records kept
 - Organize & centralize them
- Safe deposit box? – how to access
- Financial advisor name – phone
- Access codes – Passwords???
 - Lock 'em up but provide access

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Common sense letter:

- List banking accounts – Credit Cards
 - Access codes - Passwords???
- List your bills and how they are paid
 - How to stop automatic payments
- List loans – if any
 - Contact name & phone
- List brokerage and savings accounts
 - Contact name & phone
- How to contact other investment accounts

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Common sense letter:

- List insurance policies
- Prepare Will, POA for health & financial
- Have a family financial meeting
- Set up a Trust
 - Probate can be expensive – 3%-5% of inheritance
 - Probate can substantially delay closing estate
 - Probate is public
- Health Care Directive –
 - Search online for: “Health Care Directive your state”
- Meet with your heirs and “talk”

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Must Have Documents

- From Suzi Orman
- “Protection Portfolio” in a box \$90
 - **Will**
 - **Revocable Trust**
 - **Financial Power of Attorney**
 - **Healthcare Durable Power of Attorney**
 - <http://www.suzeorman.com/index.php/books-kits/collections-and-kits/must-have-documents/>
 - **Healthcare directive** (search online-your state)

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Supplemental Income

- Annuity
 - Ties up your money
 - Not easily understood
 - Expensive
 - Payout fixed
- Reverse Mortgage
 - Dangerous traps
 - Heirs likely to get nothing
 - Very Expensive

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Annuities—DRAWBACKS

- Cost—Commissions and Annual Fees
 - More expensive than many mutual funds and exchange-traded funds
- Taxes also can be an issue – annuities income can be taxed as regular income
 - Capital gains or dividends likely less
- Money is locked up
 - “Surrender fees” for the first several years
 - Without a survivor benefit rider, once you die, you can’t necessarily pass on the annuity to heirs

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Reverse Mortgage: Fees

- Typical fees on \$300,000 home:
 - \$15,000 up front costs
 - Insurance premium, broker fees, closing costs
 - \$15,000 long term costs
 - Insurance premiums, broker fees over life of loan
 - All added to loan value—interest paid on loan total
– (Compounded Debt)
- Total fees: (Not including interest)
 - \$30,000 over life of loan
- All fees & interest grow at compounded rate

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How much do I need? Do I Have Enough?

- A link to a PBS Frontline program on saving for retirement that should be required viewing for all 20 somethings and beyond. Must viewing.
<http://video.pbs.org/video/2365000843>

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Is My Portfolio Safe

- Could a cyberthief wipe me out?
 - What happens if my broker is hacked?
 - Ask to see their policy—in writing
- Online hacking is now commonplace
 - Are you protected? *
 - Vanguard – yes
 - Fidelity – yes
 - Franklin Templeton – maybe
 - Oppenheimer Funds – maybe
 - T. Row Price -- maybe
 - Other major brokers did not respond

* Consumer Reports March 2015

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Is My Portfolio Safe

- **You must follow safeguards**
 - Regularly review account statements
 - Promptly report errors or suspicious activity
 - Protect your user name – password
 - Keep up to date:
 - Security on computer or other devices
 - (Firewall – antispyware – antivirus software)
 - Do not open suspicious attachments
 - Do not provide personal information via email
 - Got a Phone call: Call your bank/broker, etc.

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Long-term Care Insurance

- Long-term study: 23% to 38% will need it
 - 78.3% stayed less than 2 years
 - 54.2% stayed less than 11 months
 - 21.7% stayed more than 3 years
- ~Cost of Assisted Living Facility: \$4,500
- ~Cost of nursing home: \$8,100 per month
 - Washington (Both vary from State to State)
- 78.3% chance \$108,000 to \$194,400 = total cost per person ($\$4,500 \times 12 \times 2$)

Scott Burns – Seattle Times September 18, 2016

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What to do when a loved one dies...

- Immediately send death certificate by certified mail to 3 credit reporting bureaus.
 - Experian
 - Equifax
 - TransUnion
- Request a “deceased alert” be placed on each credit report

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What to do when a loved one dies...

- Mail copies of death certificate to:
 - Banks
 - Insurers
 - Financial firms

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What to do when a loved one dies...

- Report death to Social Security Admin
 - 800-772-1213
- IRS
 - 800-829-1040
- Department of Motor Vehicle (DMV)

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What to do when a loved one dies...

- In obituary do not provide deceased:
 - Date of birth
 - Place of birth
 - Last address
 - Workplace
 - Affiliations

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What to do when a loved one dies...

- Starting one month after the death check the loved one's credit report at annualcreditreport.com for suspicious activity

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RETIREMENT TRAPS and WILL I HAVE ENOUGH?

Recommended reading: *The little book of
COMMON SENSE INVESTING* -- John Bogle

The end is here – or maybe not

bob.at.seattle@gmail.com
www.bob-adams.net