Strategies for a Sustainable Income in Retirement
Mark J. Stevens CFP®

- Mark Stevens is a seasoned financial services practitioner with 20+ years in Financial Advisement, Planning, Insurance & Investments.
- His focus is in helping families to organize their money and plan for all their critical financial events.
- Mark is an independent advisor and the scope of his advice and service includes retirement income planning, asset management and insurance strategies, along with providing comprehensive financial and estate planning.
- He has a special knowledge and a unique ability to help in developing distribution strategies for Retirement planning.
About SOFA

- The Society for Financial Awareness - SOFA is a 501(c)(3) non-profit organization that has been educating employer groups since 1994 in San Diego, and nationally since 2007. With hundreds of workshops conducted each year, SOFA has become the standard for employee education, and a leading provider of worksite financial education throughout the country.

- It is our intention to provide you with resources and information that you can use to make more informed decisions related to your personal situation and financial future.

- Thank you for your attendance and participation in today’s workshop. Questions and feedback is welcomed.
WealthCare Network (WCN) professional members are seasoned pros in a variety of fields.

WCN is affiliated with Non-Profit 501c3 Society for Financial Awareness (SOFA).

Experts have been curated from areas such as Finance, Legal, Real Estate, Wellness and Counselling.

What makes WCN unique? Valuable education services, tools and applications we provide through relationships with corporations & organizations in the community.

WCN has distilled incredible amounts of useful information into:

- Effective classroom materials
- Web resources
- Ideas and solutions for you through one-on-one interaction
- Referrals to experts

The collective goal is to help you achieve your ideal lifestyle.

Our network encompasses your financial life, health and family's future.
WCN Members & Speakers

**Financial & Retirement Planner**
Mark J. Stevens, CFP®, ChFC
Founder of WealthCare Network
Mark@wealthcarenetwork.org- (770) 353-6352

**Tax Advisor**
Barry H. Franklin, CPA, LLC
Barry@wealthcarenetwork.org - (770) 492-8700

**Estate Planning**
Bernard V. Kearse III
The Kearse Law Firm, PC
Bernard@wealthcarenetwork.org- (770) 394-9570

**Real Estate**
Jeromy Trask
Keller Williams Agent
Jeromy@wealthcarenetwork.org- (770) 335-3102

**Mortgage**
Stewart Sadler
Cornerstone Mortgage
Stewart@wealthcarenetwork.org- (770) 441-4765

**Women & Wealth Advisor**
Kevin Garrett, AWMA, CFS
Kevin@wealthcarenetwork.org- (770) 353-6311

**Wellness Nutrition**
Page Love, RD
Nutrifit Sport Therapy Inc
Page@wealthcarenetwork.org- (770) 395-7331

**Fitness**
Dave Hubbard
America’s Fitness Coach
Dave@wealthcarenetwork.org-(678) 770-2391

**Stress & Pain Management**
Ellen Sichel- Custom Calm, LLC
Ellen@wealthcarenetwork.org- (770) 313-6162

**Health & Medicare Specialist**
Jessie Herman-Health Markets
Jessie@wealthcarenetwork.org- (404) 518-6822

**Senior Care Consultant**
Mandy Merkel
Senior Resource Consulting
Mandy@wealthcarenetwork.org- (404)786-7789
Are You Ready to Retire?
Key Questions

- What does retirement mean to you?
- When do you plan to retire?
- How long will your retirement last?
What Does Retirement Mean to You?
Identify your Ideal Lifestyle?
WHAT LEVEL DO YOU WANT TO REACH?

- Level 1 - Financial independence
- Level 2 - Ability to live where you want (e.g., in current home, vacation home)
- Level 3 - Freedom to travel, pursue hobbies
- Level 4 - Opportunity to give or provide financially for others
When Do You Plan to Retire: Early Retirement Considerations

- Fewer accumulation years
- Longer distribution period
- Impact on Social Security
- Health care / Medicare
- Impact on pension benefit
Delayed Retirement Considerations

- More accumulation years
- Shorter distribution period
- Impact on Social Security
- Impact on health care
Working During Retirement

Phased Retirement Programs

• Increasingly popular
• Allow you to receive all or part of your pension benefit once you’ve reached retirement age
• You continue to work on a part-time basis for the same or new employer

- Earnings reduce demands on personal savings
- Potential access to health care
- Effect on Social Security
- Nonfinancial benefits
How Long Will Retirement Last?
It’s All About Longevity

- We’re living longer
- Average 65-year-old American can expect to live another 19.2 years*
- Average life expectancy is likely to continue to increase
- Retirement may last 25 years or more

Retirement Income Planning: The Process

1. Total Income from Social Security, Pensions
2. Identify the Gap
3. Consider Major Factors (Taxes, Health Care/LTC, Inflation, Risk)
4. Estimate How Much Income You’ll Need
5. Use Savings to Bridge the Gap
How Much Annual Income Will You Need?

- “Rules of thumb” (e.g., you’ll need 60% to 90% of pre-retirement income) are easy but too general
- Think about what expenses will change
  - Include costs for special retirement pursuits (e.g., travel, hobbies)
  - Mortgage and other living expenses may decrease
  - Healthcare may increase later in retirement
Major Factors to Consider

- Healthcare & Long term care
- Accounting for inflation
- Recognizing the impact of tax
- Understanding potential risk
Accounting for Health-Care Costs

- Medicare coverage at age 65
- Medicare prescription drug coverage
- Medigap policies
- Medicare will not pay for long-term care
Accounting for the Cost of Long-Term Care

What is long-term care?

40% of individuals over age 65 will need long-term care*

Average cost of nursing home = $74,820*

*Source: National Clearinghouse for Long-Term Care Information, 2011

Options

- Pay out-of-pocket
- Rely on Medicaid
- Long-term care insurance
- Stay Home longer
Accounting for Inflation

Assuming 3% inflation, in 25 years it will cost you over $100,000 to buy the same goods and services that $50,000 would purchase today.

This hypothetical example is for illustrative purposes only.
Impact of Taxes

- Ordinary income tax (e.g., interest)
- Special tax rates for long-term capital gains and qualifying dividends
- Tax-free income (e.g., certain municipal bonds)
- Special rules for tax-advantaged accounts
Primary Income Sources

- Social Security
  - Research and analyze options
- Pension
- Interest and Dividends
- Other Income i.e. Real Estate, Trust
Retirement Income Planning: The Process

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- Consider Major Factors (Health Care, Inflation, Risk)
- Total Income from Social Security, Pensions
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Retirement Savings: Withdrawal Rate

- “Sustainable withdrawal rate”
- Various Calculation methods
- Particularly important in early years of retirement
Managing Risk in Retirement

- Know your limits
- Sequence of Return Risk (The Flaw of Averages)
- Consider time segments for assets
Know Your Sleep Factor

Riskalyze Yourself

![Riskalyze Portfolio Example](image-url)
Retirement Probability of Success

Sequence of Return Risk (The Flaw of Averages)

“History does not repeat itself but it often rhymes” (Mark Twain)
Perception
...or Level of Success

- Beginning Investment Balance
- Beginning Retirement Income
- Life Expectancy

Retirement Success

Investment Balance Growth
Original Balance Retention
Inflation Adjusted Income
Investment Balance Depletion
Asset Allocation

Sequence of Returns

Deposits and Withdrawals
Sequence of Returns

Case #1
Lump Sum Investor

Case #2
Periodic Saver

Case #3
Spender / Retiree

Understanding the Reality of Your Financial Future
### Portfolio A

<table>
<thead>
<tr>
<th>End Value</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$259,374</td>
<td>10%</td>
</tr>
<tr>
<td>$175,312</td>
<td>10%</td>
</tr>
<tr>
<td>$150,161</td>
<td>10%</td>
</tr>
</tbody>
</table>

Average Return = 10%

Case #1: Lump Sum investor

Case #2: Periodic Saver

Case #3: Spender / Retiree

Press Esc to exit full screen mode.
$100,000 Initial Investment
S&P 500 Composite Index
For periods of 25 years

<table>
<thead>
<tr>
<th>Retirement Dates</th>
<th>Case 1 - Withdrawal</th>
<th>Case 2 - Withdrawal</th>
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</thead>
<tbody>
<tr>
<td>1958 to 1983</td>
<td>6% (3.5% Inc/Year)</td>
<td></td>
</tr>
<tr>
<td>1962 to 1987</td>
<td></td>
<td>8% (4.5% Inc/Year)</td>
</tr>
<tr>
<td>1964 to 1989</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1968 to 1993</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972 to 1997</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975 to 2000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986 to 2011</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CDA/Weemser & Co., S&P 500 Composite Total Return
$100,000 Initial Investment
S&P 500 Composite Index
For periods of 25 years

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</tr>
<tr>
<td>1962 to 1987</td>
<td>$247,929</td>
<td></td>
</tr>
<tr>
<td>1964 to 1989</td>
<td>$0 - 22nd yr.</td>
<td></td>
</tr>
<tr>
<td>1968 to 1993</td>
<td>$0 - 24th yr.</td>
<td></td>
</tr>
<tr>
<td>1972 to 1997</td>
<td>$0 - 20th yr.</td>
<td></td>
</tr>
<tr>
<td>1975 to 2000</td>
<td>$173,010</td>
<td></td>
</tr>
<tr>
<td>1986 to 2011</td>
<td>$2,636,291</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$334,506</td>
<td></td>
</tr>
</tbody>
</table>

Source: CSX/Barclays - S&P 500 Composite Total Return
### $100,000 Initial Investment
S&P 500 Composite Index For periods of 25 years

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<th>Retirement Dates</th>
<th>Case 1 - Withdrawal 6% (3.5% Inc/Year)</th>
<th>Case 2 - Withdrawal 8% (4.5% Inc/Year)</th>
<th>Hypothetical 6% Fixed Investment 6% (3.5% Inc/Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958 to 1983</td>
<td>$247,929</td>
<td>$0 - 22nd yr.</td>
<td>$0 - 21st yr.</td>
</tr>
<tr>
<td>1962 to 1987</td>
<td>$0 - 24th yr.</td>
<td>$0 - 16th yr.</td>
<td>$0 - 21st yr.</td>
</tr>
<tr>
<td>1964 to 1989</td>
<td>$0 - 20th yr.</td>
<td>$0 - 14th yr.</td>
<td>$0 - 21st yr.</td>
</tr>
<tr>
<td>1968 to 1993</td>
<td>$173,010</td>
<td>$0 - 11th yr.</td>
<td>$0 - 21st yr.</td>
</tr>
<tr>
<td>1972 to 1997</td>
<td>$1,636,291</td>
<td>$0 - 13th yr.</td>
<td>$0 - 21st yr.</td>
</tr>
<tr>
<td>1975 to 2000</td>
<td>$334,506</td>
<td>$1,483,788</td>
<td>$0 - 21st yr.</td>
</tr>
<tr>
<td>1986 to 2011</td>
<td></td>
<td>$75,252</td>
<td>$0 - 21st yr.</td>
</tr>
</tbody>
</table>

Source: G&A/Wealth - S&P 500 Composite Index Return
Rolling Period Analysis

and so on...
# Rolling Period Analysis

**Large Company Stocks (All Rolling Periods Since 1926), 3.5% Annual Withdrawal Increase**

<table>
<thead>
<tr>
<th>Number of Years</th>
<th>100% Large Company Stocks</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
<th>6%</th>
<th>7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 Years</td>
<td>96%</td>
<td>94%</td>
<td>87%</td>
<td>70%</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>20 Years</td>
<td>98%</td>
<td>95%</td>
<td>90%</td>
<td>76%</td>
<td>61%</td>
<td></td>
</tr>
<tr>
<td>15 Years</td>
<td>100%</td>
<td>97%</td>
<td>95%</td>
<td>90%</td>
<td>81%</td>
<td></td>
</tr>
</tbody>
</table>

- **IMPORTANT:** The projections or other information generated by BetaVest CASE Management System (CMS) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.
- Overall, Government bonds, T-Bills, and Certificates of Deposit (CDs) represent a legal obligation of the government, meaning that interest and principal is generally paid even in a weak economy. For the holder of Gov't bonds, CDs or T-bills, the loss of principal could occur, if in the extremely rare situation, the issuing government failed to recognize its debt obligations. This means that bonds, CDs, and T-Bills are generally less risky investment than stocks. As a result, due to the lower risk involved, bond returns are usually lower than stock returns. Note that bonds also face market risk. A recession or inflation affects the bond markets. Sometimes market forces will cause interest rates to rise, leaving the investor holding a bond with a value much lower than the face value. Although stocks may produce returns that may be higher than bonds, T-Bills, or CDs, there is an inherent risk of investing in stocks which may result in a loss of value and principal.
- Asset allocation does not assure a profit against loss in a declining market and investments are subject to market risk and may lose value.

Source: CRSP Data, University of Chicago
# Rolling Period Analysis

**Large Company Stocks (All Rolling Periods Since 1926), 3.5% Annual Withdrawal Increase**

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<td>90%</td>
<td>72%</td>
<td>61%</td>
<td></td>
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<tr>
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<td>100%</td>
<td>97%</td>
<td>95%</td>
<td>81%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Intermediate Term Government Bonds (All Rolling Periods Since 1926), 3.5% Annual Withdrawal Increase**

<table>
<thead>
<tr>
<th>Number of Years</th>
<th>100% Intermediate Government Bonds</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
<th>6%</th>
<th>7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 Years</td>
<td>100%</td>
<td>55%</td>
<td>26%</td>
<td>19%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>20 Years</td>
<td>100%</td>
<td>93%</td>
<td>47%</td>
<td>28%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>15 Years</td>
<td>100%</td>
<td>100%</td>
<td>68%</td>
<td>37%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Aft-casting – *Good Luck vs. Bad Luck Sequences*

- Plan based upon probabilities, NOT averages.

With all the variables to consider:

You may as well try to forecast the weather on a birthday 20 years from now!

This is a hypothetical example and is not intended to reflect the actual performance of any investment.
Post Retirement Income Planning

- Balance Between Immediate Income vs. Asset Growth
- Segment Assets in Buckets:
  - Effective Asset Allocation
  - Provides ongoing income
  - Minimizes asset volatility
  - Minimizes Sequence of return risk
  - Maximizes likelihood that savings will last as long as needed
  - Keeps pace with inflation
- www.mstevens.retirementtime.com
Sign-up For 15 Minute Call

Ask questions, and start planning now.
Mark J. Stevens, Chapter President
WealthCare Network
200 Ashford Center N. Ste 400
Atlanta, Ga 30338
mark@wealthcarenetwork.org
(770) 353-6354 Office

http://www.worklife.emory.edu/quicklinks/worklifeweb/finances.html
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