



The 15 Minute Retirement Planner



U.S. ADVISORY GROUP

Life By Design

- What do you need?
- Where are you Now?
- What do you do to get inside the Curve?

The Old Rules Don't Apply...

Once upon a time, you worked for the same company most of your life, and when retirement came along, you got a gold watch, a farewell party and a retirement income stream for life...

So much for "once upon a time"...

Running out of money is consistently a common concern of retirees in studies year after year. And no wonder. It's simply harder than ever to get it "Right".

People work their whole lives to accumulate enough wealth to make sure that they enjoy a comfortable retirement only to find they've come up short.

There are 5 key issues we face in building a successful retirement. They are *longevity risk, inflation, poor asset allocation, not understanding withdrawal rates and rising health care costs*. The #1 fear of retirees today is running out of money. No wonder.

There is a process map we need to follow in order to get retirement "right". Understanding the process and the challenges each step imposes is critical to living retirement on your terms. We call this *"Life by Design"*.

Government statistics tell us:

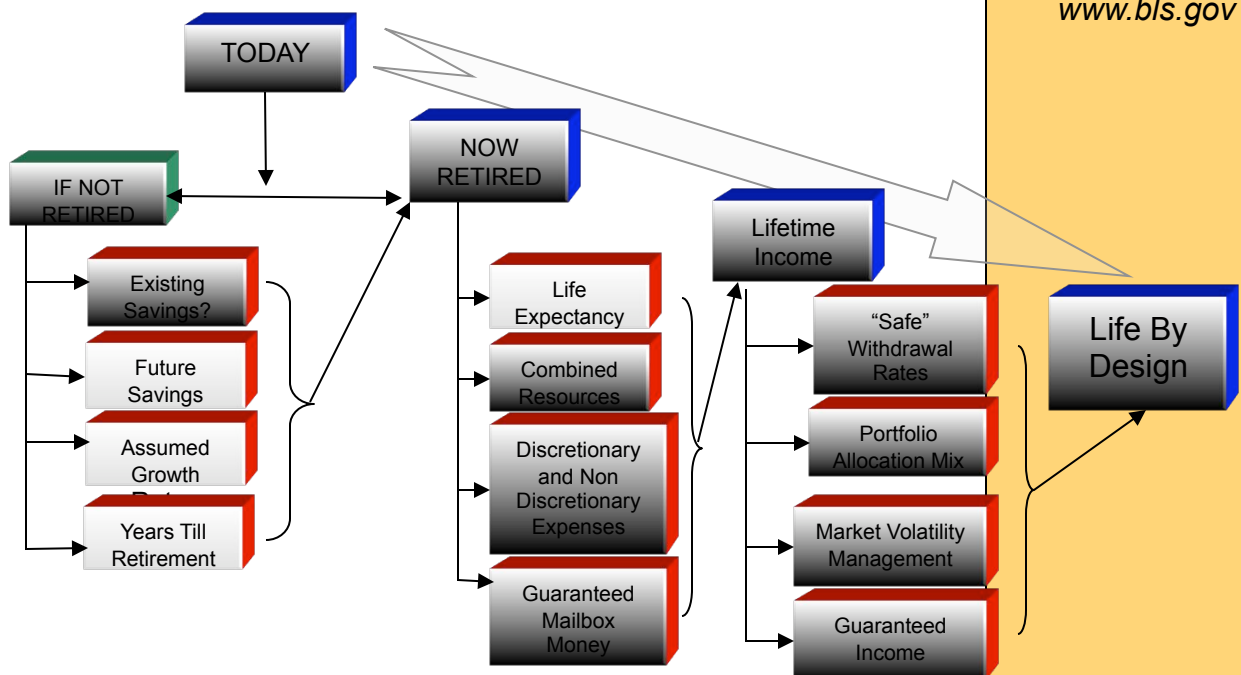
6% of all retirees are financially independent,

18% need to work part time or past age 65, and

76% of retirees are financially unable to retire at age 65...

Bureau of Labor Statistics – www.bls.gov

The Retirement Process Map



Now that we understand the process, let's walk through the steps, particularly identifying common misconceptions retirees often have...

The Age Issue

Carefully consider the time horizon.
You may live a lot longer than you think.

Creating a New Life Cycle (Part 1)

At the turn of the 20th century, the average life expectancy was 47 years. Today, the average American can look forward to about 77 years of life. By 2040, among individuals who reach age 65, average life expectancy is projected to rise from 81 to 85 for men and from 84 to 88 for women, according to the National Center for Health Statistics.

What's behind this trend? Some causes are obvious, such as improved health care. Medical advances, ranging from drugs that control hypertension to hip replacements, allow older Americans to remain active. Healthier lifestyles are also a contributing factor. People are treating their bodies with greater respect. They're giving up smoking, learning to eat right, and exercising regularly. Inevitably, these trends lead to healthier, longer, more productive lives.

So, we are living longer, and that trend continues to be extended. What's your life expectancy?

2005 Internal Revenue Service Life Expectancy Tables

Remainder of			Remainder of		
AGE	Life Expectancy	Life Expectancy	AGE	Life Expectancy	Life Expectancy
59	85.1	26.1	75	88.4	13.4
60	85.2	25.2	76	88.7	12.7
61	85.4	24.4	77	89.1	12.1
62	85.5	23.5	78	89.4	11.4
63	85.7	22.7	79	89.8	10.8
64	85.8	21.8	80	90.2	10.2
65	86.0	21.0	81	90.7	9.7
66	86.2	20.2	82	91.1	9.1
67	86.4	19.4	83	91.6	8.6
68	86.6	18.6	84	92.1	8.1
69	86.8	17.8	85	92.6	7.6
70	87.0	17.0	86	93.1	7.1
71	87.3	16.3	87	93.7	6.7
72	87.5	15.5	88	94.3	6.3
73	87.8	14.8	89	94.9	5.9
74	88.1	14.1	90	95.5	5.5

The Lifestyle Issue

Carefully consider what “retirement” means to you.
Your expenses may not drop as they did for prior generations.

Creating a New Life Cycle (Part 2)

As mentioned, the five key issues we need to deal with are 1) longevity risk, 2) inflation risk, 3) poor asset allocation, 4) proper withdrawal rates and 5) rising health care costs.

Expenses are not dropping as they often did for retirees in prior years, and the rules are changing.

Today, we are active. Health contributes to this but the bottom line is seniors are more active than ever.

Travel. Cruises, vacation homes. Retirement is a whole new stage of life today.

And regardless of what the number is, the effect of inflation is felt more than ever.

Additionally, expenses such as health care costs and prescription medicines are soaring. Concerns for long term care are shared by all.

It used to be we retired, we got the gold watch, and a pension, or income for life, and went home. Simple. Predictable. Now, we don’t get the watch, and are given a 401(k) and told to do what we wish with it. More money than we probably ever had, and making the right or wrong decision means living comfortably or running out of money.

In short, both retirement and medical benefit plans are placing more and more reliance on individual savings and wealth management. The responsibilities of a successful retirement are upon our shoulders, and this is a fundamental shift from prior generations.

Aside from longevity and inflation come the responsibility of understanding our needs, assessing our cash flow and withdrawal plans and making the right decisions about investing our savings in a manner consistent with our needs and risk tolerances.

Not a lot of fun. Getting it *Right* matters.



Plan Cash requirements

Let's look at how much we need.

We call this *“What's Your Number?”*

The goal is to retire on your terms, not the markets' (or what the market happens to “provide” you on any given year). First, determine your non-negotiable expenses, such as food, shelter, medical and simple living needs. These expenses must be covered, and non-negotiable, check in the mail kind of income needs to show up every months to meet these needs.

Next, what are the discretionary expenses that define your desires... perhaps these include such things as travel, above and beyond entertainment, gifts to the kids, helping grandchildren for education, or charitable gifts?

Now, let's look at what income we have guaranteed. This typically includes Social Security (such as any government guarantee), or any pension income we have.

Finally, what's the shortfall we will need from our investments? Let's fill in the chart...

Non Discretionary Expenses	\$ _____
Additional Desired Expenses	\$ _____
Total Expenses at Retirement	\$ _____

Social Security	\$ _____
Pensions (or other predictable non investment income)	\$ _____
Total “Guaranteed” Income	\$ _____
Shortfall, or Requirement from Investments	\$ _____

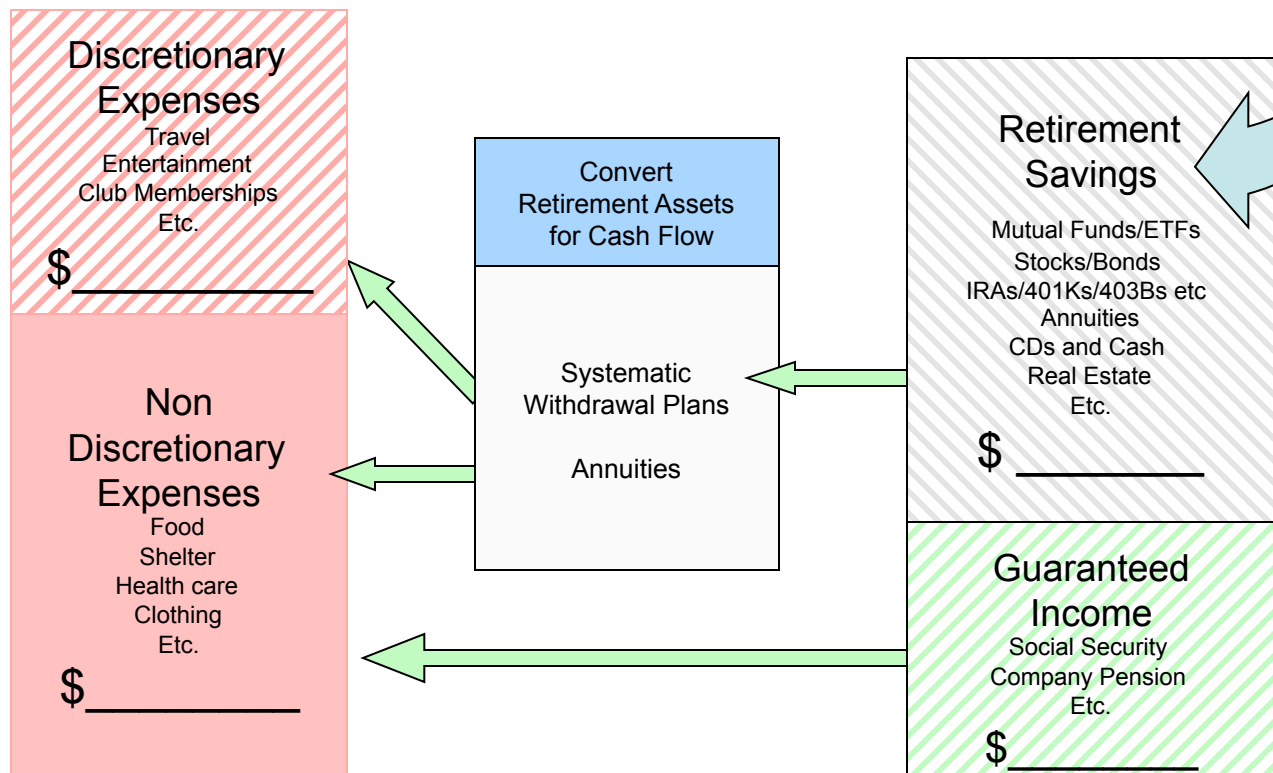
Plan Cash Distributions

So, we have identified what we need (discretionary and non discretionary), we know what we have already coming in on a virtual “guaranteed” basis, and we can figure out the shortfall.
(data from prior page)

Now, how much do we have to address the shortfall?

Retirement Savings

IRA's, 401K's, and any other 403B etc	\$ _____
Cash other than Emergency Funds	\$ _____
Mutual Funds	\$ _____
Annuities	\$ _____
Total Investable Retirement Income Generating Resources	\$ _____



Under reasonable, sustainable withdrawal rates, how much of the retirement savings need to be allocated to covering the non-discretionary gap? \$_____.

How important is it to make this money *safe and predictable* in it's income generation?
What is the balance attributed to discretionary income needs and what is expected of it?

Planning withdrawals

Individuals often have unrealistic expectations about how much money they will safely be able to withdraw annually from their portfolio.

A common but incorrect assumption is that if stocks historically returned approximately 10% annualized over long periods of time, then it is safe to withdraw 10%. Or at least 8% per year without ever having to draw down on the principal.



Nothing could be further from the truth!

While stocks may have averaged 9.51%,¹ two issues remain:

1. The real returns are closer to 7% after inflation, and
2. Market volatility.

Inflation: Inflation robs us of purchasing power over time. For example, the person requiring \$50,000 today will need \$92,000 in 20 years, and \$125,000 in 25 years to maintain purchasing power at the current rate of inflation.

Market volatility: **Perhaps the least understood and most critical issue of retirees today.** When accumulating money, the average annual return is what is important. When in the distribution phase, the sequence of returns is all that matters. While the markets may average a certain return, any year you withdraw a sum greater than the return, let alone a negative return, you create greater stress on the portfolio to maintain itself, and the impact, not unlike compounding, may be huge.

¹Ibtsom Financial Analyst using S&P500 1926-2008

Why Sequence of Returns matters

Accumulation Period				
Starting Value: \$100,000 No Distributions				
AGE	Annual Return	Year End Value	Annual Return	Year End Value
41	-12%	\$87,695	29%	\$129,491
42	-21%	69,426	18%	152,281
43	-14%	59,707	25%	189,590
44	22%	72,984	-6%	178,404
45	10%	80,136	15%	204,272
46	4%	83,595	8%	221,183
47	11%	92,707	27%	281,124
48	3%	95,210	-2%	274,939
49	-3%	92,155	15%	315,355
50	21%	111,507	19%	375,272
51	17%	130,129	33%	498,737
52	5%	137,836	11%	554,097
53	-10%	123,597	-10%	499,737
54	11%	137,316	5%	526,284
55	33%	182,493	17%	614,174
56	19%	217,167	21%	743,150
57	15%	249,091	-3%	719,305
58	-2%	243,611	3%	738,726
59	27%	309,626	11%	819,247
60	8%	335,262	4%	854,602
61	15%	383,875	10%	936,354
62	-6%	361,226	22%	1,147,022
63	25%	449,727	-14%	986,439
64	18%	528,878	-21%	780,941
65	29%	684,848	-12%	684,848
	8%	\$684,848	8%	\$684,848

Withdrawal period				
Annual income: 5% of initial balance, and adjusted for inflation annually thereafter				
AGE	Annual Return	Year End Value	Annual Return	Year End Value
66	-12%	\$566,337	29%	\$852,571
67	-21%	413,086	18%	967,355
68	-14%	318,927	25%	1,168,029
69	22%	352,432	-6%	1,061,698
70	10%	348,431	15%	1,177,105
71	4%	323,772	8%	1,234,835
72	11%	318,176	27%	1,528,614
73	3%	284,653	-2%	1,452,871
74	-3%	232,143	15%	1,623,066
75	21%	236,215	19%	1,886,771
76	17%	229,644	33%	2,461,500
77	5%	194,417	11%	2,687,327
78	-10%	126,543	-10%	2,375,148
79	11%	90,304	5%	2,450,746
80	33%	68,219	17%	2,808,226
81	19%	27,833	21%	3,344,606
82	15%	0	-3%	3,182,338
83	-2%	0	3%	3,211,664
84	27%	0	11%	3,503,440
85	8%	0	4%	3,594,592
86	15%	0	10%	3,885,017
87	-6%	0	22%	4,685,257
88	25%	0	-14%	3,963,710
89	18%	0	-21%	3,070,398
90	29%	0	-12%	2,622,984
	8%	\$0	8%	\$2,622,984

Take two hypothetical phases, the accumulation phase where no distributions are made, and the retirement phase, where income is 5% of beginning principal value and adjusted for inflation thereafter. In all cases, the average return was 8%.

Note the sequence of hypothetical (but consistent with ranges in the S&P since 1983) returns. (Source: Standard & Poor's)

In each phase, we have a sequence of returns, then invert them to look at the implication of how the returns effect the outcome.

During the accumulation phase, regardless of the sequence of returns, what mattered was the average annual return. Both columns in our accumulation phase resulted in the same number at age 65.

But not so in the retirement phase. In the retirement phase, where negative results occurred in the early years, we ran out of money at age 81.

On the other hand, inverted, with the average still being 8%, and we met our needs with more than \$2 ½ million at age 90!

We can "average 8%, take out 5%(w/inflation), and still run out of money.

Planning withdrawals (What's Safe?)

What's a safe withdrawal percentage and how do I allocate my portfolio across stocks and bonds accordingly?

We *need* to understand how in any given year, volatility, especially negative years, creates a compounded negative pressure on the ability to maintain initial cash requirements. Over time, this pressure may translate into exhausting the portfolio. Requiring a fixed dollar amount against a shrinking principal means an ever increasing rate of return is needed, (\$10,000 on \$200,000 is 5%, but if we lose \$20,000 (i.e.. a 10% drop in the market) and withdraw \$10,000, we have \$170,000.

Next year, in order to take out \$10,000, we need almost 6% instead of the initial 5%, and so on.

In time, we can be in trouble, depending upon the sequence of returns.

So, What's a safe withdrawal rate?

Using a Monte Carlo² simulator, and assuming various portfolio mixes of stocks/bonds (in this case, 60/40 and 80/20) over a 20 and 30 year period, we can determine the probability of a given portfolio mix successfully providing a specific distribution over a specific time frame.

Probability of Success

(Success being not running out of money)

	4%	5%	6%	7%	8%
60/40 20 Years	99%	92%	75%	52%	31%
60/40 30 Years	87%	63%	38%	19%	8%
80/20 20 Years	97%	89%	74%	56%	38%
80/20 30 Years	84%	65%	45%	28%	16%

² Monte Carlo Simulations is a technique which allows for random sampling of historical stock, bond and cash returns. This statistical model generates ranges of outcomes and allows for the assignment of probabilities for which any given outcome may occur. While the table above uses historical data, it does not reflect actual results. It's sole purpose is to predict the probability of a given occurrence based upon specific criteria selected.

Creating rules and Guidelines



So, What's our Number?

\$ _____

What retirement resources do we/will we have?

\$ _____



What is the percentage we need to withdraw to meet non-discretionary needs? \$ _____ discretionary needs? \$ _____

What probability of success are we looking at? _____ %.

What asset mix seems appropriate based upon the above? (not yet taking risk into account...) _____ % stocks _____ % Bonds.

(This does not mean this is the "right" mix)

Have we utilized risk reduction tools in order to create desired lifetime income? Do we need to?

A final word

Everyone needs to do some fundamental planning.

A successful retirement does not happen by accident or luck.

You need to develop a personal and financial profile – growth objectives, withdrawal needs, risk tolerance, and lifetime horizons all need to be carefully considered.

To improve the likelihood of meeting objectives, smart, and sometimes *hard*, decisions and trade-offs need to be made.

Once you have developed a plan, you can then intelligently analyze the investment choices best suited to meet your goals and objectives.

Understanding the myriad of investment choices is critical, but doing so methodically is the key. Looking for that proverbial needle in the haystack can be hard enough, but you need to properly define what you are looking for first.

Running out of money is one of the worst scenarios an individual can face during retirement.

As seen, withdrawal rates of 5-6% or more can drastically increase the possibility of this happening. It is vitally important to be realistic about spending, resource planning, asset allocation and realistic expected rates of return.

We hope this piece has helped create a perspective on the issues.

Fortunately, there are a number of steps that can greatly assist you in meeting your needs and reducing the risk of running out of money over your lifetime.

Come in and talk to us.

We would be happy to talk about what you are doing and discuss the possibility of how you may improve upon your current circumstances. As with all our clients, we remain committed to making retirement work for everyone.



U.S. ADVISORY GROUP

Life By Design



301 Edgewater Place

Wakefield, MA. 01880

781-246-0222

USAdvisory.com

US Advisory Group, Inc., is a Registered Investment Advisor and its representatives offer securities and investment advisory services through Transamerica Financial Advisors, Inc., Member FINRA, SIPC