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Sufficient Funds for Your Entire Retirement

When you're young, the idea of retirement is shrouded in idle thoughts of what you'll do when you don't have to work anymore. But while those fast approaching retirement may have a clearer view of what is to come, in some ways, they are just as unaware of what is really in store for them over the next few decades. Most of us don't know how long we're going to live, so making sure we have sufficient funds for our entire retirement is incredibly important.

How Much to Save?

While it's thought you may only need as low as 70% of your current income per year in retirement, it is wise to assume that you will need closer to 100%. Think of all the things you enjoy doing now: traveling, hobbies, attending cultural events and sports games. All of these could be a vital part of an active and interesting retirement, but they also cost money. Make sure you have saved enough to be active and that your withdrawal rate is not so high that your resources could deplete early. While it's always customizable, a good starting point is to withdraw 4% in the first year of your retirement, and continue to adjust for inflation down the road.

Cutting back on living expenses now will free resources for more contributions to your retirement and will give you an idea of how little you can live comfortably on. This will give you a better idea of how much you will really need in retirement. The most important expense to get rid of is payments on any debt. Your cost of living will be significantly reduced if you have paid off your mortgage and any outstanding consumer debt.

When forming a plan or determining if you are ready to retire now, err on the side of longevity

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Resist Temptation

Whatever your objectives and whatever course you have selected to help you achieve them, there will always be some other course or investment that looks better. Sometimes a change will be warranted, but only when it is consistent with your existing strategy.

Unfortunately, investors often switch from one type of investment to another for reasons not related to their investment objectives. For instance, during a period of market fluctuation, an investor may be tempted to switch from stocks to cash. Or, during a period of low interest rates, an investor may switch from bonds to stocks. Often, these types of switches are inconsistent with their investment strategy, making it less likely these strategies will help achieve their investment objectives.

Remember, your investment strategy was designed after giving careful thought to your objectives, risk tolerance, and time horizon. The strategy was meant to guide your investment decisions during all types of market environments; so changes should not be necessary due to market fluctuations. Stay focused on your investment objectives, and stay the course. Feel free to call if you would like to review your investment portfolio. ❍❍❍

Sufficient Funds

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when it comes to your lifespan. Add a few years to what is generally expected — plan on living until 85 or 90. It is a far better situation to have saved more than necessary than to run out of funds late in life. In the vein of further caution, it is a good idea to have an emergency fund outside of your retirement plan. A general rule is to have at least six months of living expenses tucked away just in case.

What about Housing?

In general, housing should take up about 25% of your gross pay or 35% of your take-home pay. If you own your own home and have paid off your mortgage, this shouldn't be a difficult guideline — but remember that with a house comes additional, and often expensive, repair and maintenance costs. If you plan on staying in your home throughout your retirement, make sure the big stuff is in good working order or replaced while you are still drawing income. This includes the roof, the foundation, siding, HVAC, sewer lines, and septic system, as well as an emergency fund in case of fire or water damage.

Your house will also need to be adapted for your needs as you age. You may need to consider selling a home that requires a lot of upkeep and downsizing to something more manageable. No one wants to face the reality of physical deterioration, but most people face mobility issues as they age and a one-story home is safer and easier to navigate.

Continuing Income Options

It may be tempting, but resist the urge to take early retirement. It is difficult enough to save enough money to live on in retirement if you are only retired for 20-25 years. Imagine if you retire at 55 years old and live for another 35 years. You will need funds to support yourself in retirement for longer than you were in the workforce. Every extra year you work is a year you don't have to support yourself using your retirement savings.

Once you've retired, it can be helpful for your savings and your wellbeing to work a casual, light job. Many retirees find themselves missing the comradery of the workplace and the continued income will allow for more spending money, vacations, and greater security in your savings. You could put your experience to work for you as a part-time consultant in your former field, or put in a few hours a week at the town museum.

Last but not least, consider longevity insurance. This is a type of deferred annuity that will continue to provide income well into your twilight years. People usually purchase it at around 65 years old, and the payout begins at 80 years.

Please call if you'd like to discuss this in more detail. ❍❍❍

Calculating Your Life Insurance Needs

While life insurance can serve a variety of purposes, one of the most common is to maintain your family's standard of living in case you die. Many rules of thumb exist, such as five to seven times your annual income, but don't rely on rules of thumb to determine your coverage. They don't take into account your individual circumstances. Your insurance needs will probably change over time. To determine how much insurance you need, consider these questions:

What lifestyle do you want to provide for your spouse and dependents after your death? Review your needs in detail, taking a look at things like:

- ✔ Do you want to provide the same standard of living? Will your spouse and children live in the same house?
- ✔ Will the family need different childcare arrangements?
- ✔ Do you want to provide for college educations?
- ✔ If your spouse doesn't work, do you want that to continue, or do you expect him/her to work after your death?
- ✔ Do you need to consider the support of elderly parents?
- ✔ How long must your family live off the insurance proceeds? Will your current retirement fund provide enough income for your spouse to live on after retirement or do you need to provide income until his/her death?
- ✔ Do you want to pay off a mortgage or other debt with insurance proceeds?
- ✔ Do you have estate-tax considerations you want to address with life insurance?

How much will that lifestyle cost? Come up with an estimate of how much this lifestyle will cost. Include all of your current expenses that would remain the same, as well as any new expenses you have identified. Remember to factor in hidden costs, such as providing for health insurance that was paid for by your employer. For large debts, such as a mortgage, determine whether it makes sense to pay the loan off in full or to continue making monthly payments.

How much life insurance do you need? First, consider what other income sources your spouse and/or dependents will have. This could include your spouse's earnings, retirement plans, Social Security, savings, and investments. Life insurance proceeds will be needed to provide the difference.

Your life insurance needs will change over time, so you should periodically go through this analysis. Please call to discuss your life insurance needs. ❍❍❍

The Basics of The SECURE Act

Signed into law by President Trump on December 20, 2019, the Setting Every Community Up for Retirement Enhancement Act, also known as the SECURE Act, is intended to increase access to tax-advantaged retirement accounts, helping older Americans in retirement and encouraging employers to offer 401(k) plans.

The new act, which went into effect on January 1, 2020, will affect IRAs, 401(k) plans, and other retirement accounts.

What Has Changed

The SECURE Act has made several changes related to tax-advantaged accounts:

✔ Increasing the cap for small businesses to automatically enroll workers in safe harbor retirement plans from 10% of wages to 15%.

✔ Providing a $500 tax credit per year to employers who create a 401(k) or SIMPLE IRA plan with automatic enrollment.

✔ Allowing businesses to enroll part-time employees who have worked 1,000 hours throughout the year or 500 hours for three consecutive years.

✔ Encouraging plan sponsors to offer annuities in their 401(k) plans by reducing their liability if the insurer can't meet its financial obligations, and also not requiring them to choose the lowest-cost plan.

✔ Removing the "one bad apple rule" for multiple employer retirement plans, which required that all of the participating small businesses meet the plan requirements or it failed for all of them. Now multiple employer plans will enjoy the economy of scale and be able to provide more plan features.

✔ Changing the age of required minimum distributions (RMDs) on retirement accounts from 70½ to 72.

✔ Eliminating the maximum age for traditional IRA contributions, which was previously capped at 70½ years old.

✔ Allowing a penalty-free withdrawal of $5,000 from 401(k) plans to help with the costs of having or adopting a child.

✔ Allowing the use of $10,000 annually from 529 plans to repay student loans.

Another change is the removal of the stretch IRA, which is estimated to raise $15.7 billion in tax revenue. This rule allowed nonspouses who inherited an IRA to stretch the disbursements over their lifetime. With the new rule, nonspouses who inherit an IRA will be required to take a full payout from the account within 10 years of the original account owner's death, beginning with account holders who die in 2020. With the changes to inherited IRAs, it will be important for account owners to review their estate plans and the potential tax consequences.

The Jury Is Out

While it will take time for the jury to come in on whether the SECURE Act will make positive changes in helping Americans save for retirement, many financial experts appear to be optimistic and believe it is a step in the right direction. As expected, other experts feel it will have a limited impact on saving.

One thing experts can agree on is that Americans are currently not financially prepared for retirement, and changes are needed to put people on the path toward financial security. Hopefully, the SECURE Act is the impetus for that change. Please call if you'd like to discuss this in more detail. ❍❍❍

Extreme Predictions May Have Other Motives

As I was decluttering my home office in March, I came across a book that I purchased around 20 years ago titled ***Dow 100,000: Fact or Fiction*** by Charles W. Kadlec. The book was a bullish case for the possibility that the Dow Jones Industrial Average could hit 100,000 by… 2020. At its all-time-high in February 2020, the Dow stopped short of achieving 30,000. Kadlec's assumed growth rate of 11% for the Dow was optimistic, as it turns out. In 1999, most investors were already optimistic, so a flashy prediction was needed to sell books. Other now cringe-worthy predictions in the titles of financial books include:

• ***Dow 40,000: Strategies for Profiting from the Greatest Bull Market in History*** (1999) – Author David Elias's more moderate prediction of Dow 40,000 in 2016 came up short by over 20,000 points.

• ***Dow 36,000: The New Strategy for Profiting from the Coming Rise in the Stock Market*** (1999) - Although James Glassman and Kevin Hassett did not provide a clear target date in their book, an article that they penned for The Atlantic in September 1999 suggested a short timeframe.

• ***Dow 30,000 by 2008: Why It's Different This Time*** (2001) - Unlike the previous authors, Robert Zuccaro benefited by the hindsight of the bursting tech bubble when he wrote this book, though his choice of 2008 was unfortunate. Curiously, the release of the second edition of the book in paperback occurred on December 1, 2008, when the down closed below 8700.

Extreme predictions can also be used to sell other products.

• Jim Rickards, who has been credited with predicting the 2008 crisis, transcribed an interview he gave in which he said "If you buy gold at $1,700 and it goes to $1,500, buy more because it's on its way to $2,000, $3,000, $4,000 and higher. The fundamental story (for gold) is completely intact, in fact it's getting stronger…" On the date of the interview (11/18/2011, according to blog entry on the following day) gold closed at $1,725 per ounce. Prices fell below this level in late 2012 and did not reach $1,725 again until April 2020. Jim's website markets gold, which might explain his consistently bearish economic and market predictions.

Politics provides great temptations for other-than-moderate predictions.

• In Forbes magazine in July 1993, Morgan Stanley global investment strategist Barton Biggs suggested selling domestic stocks, warning that Bill Clinton's policies were bad for the US. The S&P 500 returned an annualized 18.5% over the next seven years.

• On 10/21/2016, Politico ran an article entitled ***Economists: A Trump win would tank the markets***. Ben White went on to say that recent research showed that the financial markets "could react with panicked selling should Trump defy polls and deliver a shocking upset on Nov. 8." Markets opened lower on 11/9/2016, but turned positive shortly thereafter.

You can make your own guesses as to why these predictions (financial and nonfinancial) were proffered, but they were most certainly wrong:

• "There's no chance that the iPhone is going to get any significant market share. No chance. It's a $500 subsidized item." Microsoft CEO Steve Ballmer (2007)

• Y2K – Doomsday predictions of nuclear missiles launching on their own, bank account records being wiped out, blackouts, and food shortages were some of the predictions that did not come to pass, thankfully.

• "Man will not fly for 50 years." Wilbur Wright (1901), 2 years before he and his brother succeeded in flight.

• "Lee DeForest has said (…) that it would be possible to transmit the human voice across the Atlantic before many years. Based on these absurd and deliberately misleading statements, the misguided public has been persuaded to purchase stock in his company." A U.S. District Attorney stated this as he began prosecuting DeForest for selling stock in his Radio Telephone Company. DeForest's work made possible the first tunable radio.

• Lee DeForest (see above) said of the future of the television, "Commercially and financially it is an impossibility, a development of which we need waste little time dreaming."

• "Sell everything except high quality bonds." Royal Bank of Scotland in a January 2016 letter to clients, predicted that fears of deflation and an exiting of investments that had benefited from quantitative easing would crash markets. Although Brexit raised volatility that year, the selloff did not materialize.

• "If excessive smoking actually plays a role in the production of lung cancer, it seems to be a minor one." -W.C. Heuper, National Cancer Institute, 1954

• "No! No! No! Bear Sterns is fine! Don't move your money from Bear! That's just being silly!" -CNBC's Jim Cramer after being asked by a caller if he should be worried about Bear Stearns. On this day, March 11, 2008, it traded at around $60/share, but five days later Bear Sterns would be purchased by JPMorgan for $2/share.

With so much uncertainty in the markets, predictions have become more extreme. Know who is making the prediction and consider the motive for the prediction. This is especially true during this election year as politicians and their surrogates try to court voters. In many cases, the goal of outlandish predictions is entertainment. Those are the ones that get the clicks, sell the books, increase viewership, etc. Predictions in-line with the consensus do not.

We shy away from market predictions and, in fact, are usually quite skeptical of them. Even though a broken clock is right twice a day, it is otherwise useless. For example, Harry Dent is currently getting credit for predicting this recession. In one of his first books, which was published in April, 1998 and titled "Roaring 2000s," he predicted the Dow would hit as high as 35,000 by 2008, being exactly wrong on that one.

We strongly recommend a long-term approach to investing, and setting financial goals based on reasonable assumptions.

Sincerely,
Christopher M. Trainor
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Financial Advisor