Everyone Retires — Things You Should Think About – Part 1 & 2

Craig Braemer CFP® CFA®

BetterInvesting Director

San Francisco Bay Area Chapter

October 19, 2024

Education Day

NATIONAL ASSOCIATION OF INVESTORS CORPORATION

BETTERINVESTING™

Empowering Investors Since 1951

PRESENTATION DISCLAIMER

- The information in this presentation is for educational purposes only and is not intended to be a recommendation to purchase or sell any of the stocks, mutual funds, or other securities that may be referenced. The securities of companies referenced or featured in the seminar materials are for illustrative purposes only and are not to be considered endorsed or recommended for purchase or sale by BetterInvesting™ / National Association of Investors™. The views expressed are those of the instructors, commentators, guests and participants, as the case may be, and do not necessarily represent those of BetterInvesting. Investors should conduct their own review and analysis of any company of interest before making an investment decision.
- Securities discussed may be held by the instructors in their own personal portfolios or in those of their clients. BetterInvesting presenters and volunteers are held to a strict code of conduct that precludes benefitting financially from educational presentations or public activities via any BetterInvesting programs, events and/or educational sessions in which they participate. Any violation is strictly prohibited and should be reported to the CEO of BetterInvesting or the Director of Chapter Relations.
- This presentation may contain images of websites and products or services not endorsed by BetterInvesting. The presenter is not endorsing or promoting the use of these websites, products or services.
- We may be recording this session for our future use.

Agenda

- Who are we?
- Retirement is in your future – your plans?
- Focus of class - asset allocation and planning
- What should you do when you are young?
- Key events prior to retirement
- Social Security and other items
- Summary

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
BETTERINVESTING™
Empowering Investors Since 1951

Retirement is Coming

Among workers age 55-64, they have saved a median of $89k, but $256k average.

- In the next 7 years, 10,000 baby boomers will turn 65/day.
- 10% of older Americans live below the poverty line.
- 32% of Americans have no retirement savings.
- California median cost of an assisted living facility is $63k/year.
- Average family (35-44) has $72,500 for retirement.
- 42% of Americans have less than $1,000 in liquid savings and 58% have less than 5,000.
- Americans over 55 account for 20% of all bankruptcies.

47% of retirees retired earlier than expected, with health, disability or caring for a relative as main reasons

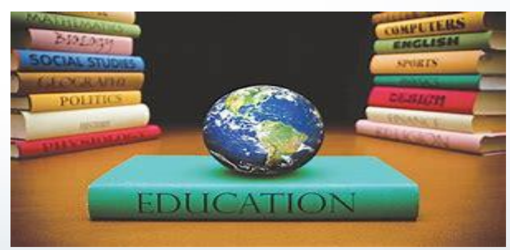
Source: Vanguard's How America Saves 2022 Report. U.S. Census Bureau. The Penny Hoarder. US Department Of Health and Human Services. A Place for Mom. Western & Southern Financial Group. Zippia. What Is the Average Retirement Age?, US News & Report, 7/26/2022.

Retirement Reality

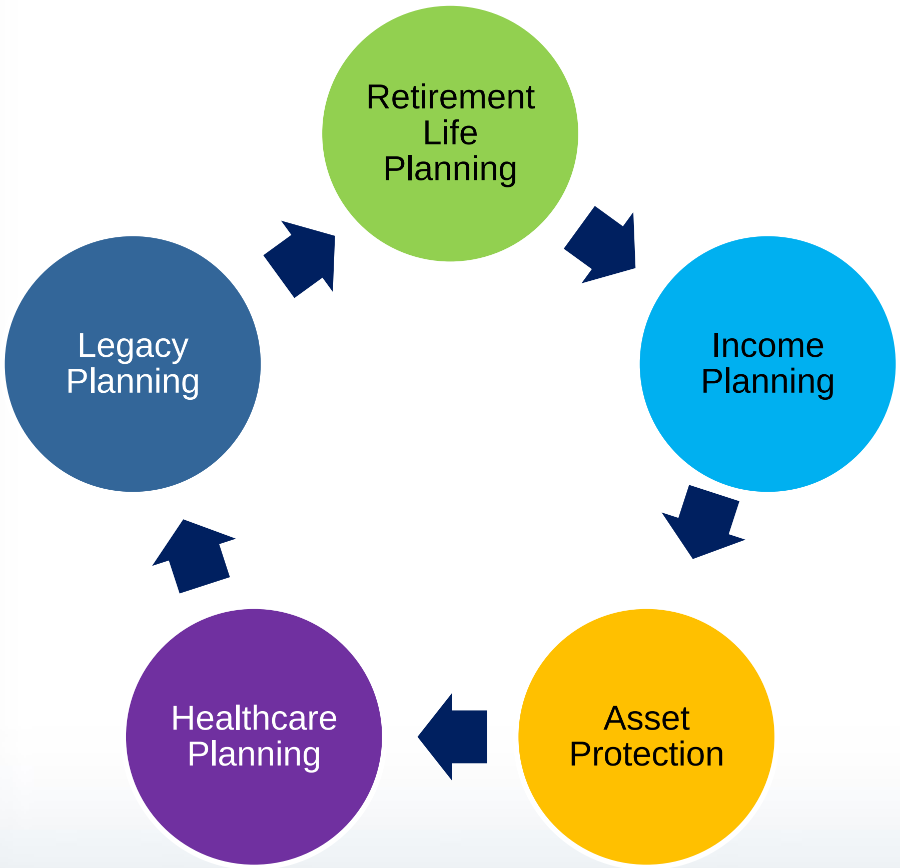
Unless you are financially prepared, you should not expect your retirement to be any more opulent than your life has been so far. Guarding yourself against unrealistic retirement expectations is crucial.

Can this Situation be fixed?

- Many of these issues can be fixed with:
  - *Education*
  - Sacrifice
  - Planning
  - Time
  - Benefits
    - Retirement
    - Social Security



Retirement – High Level Planning

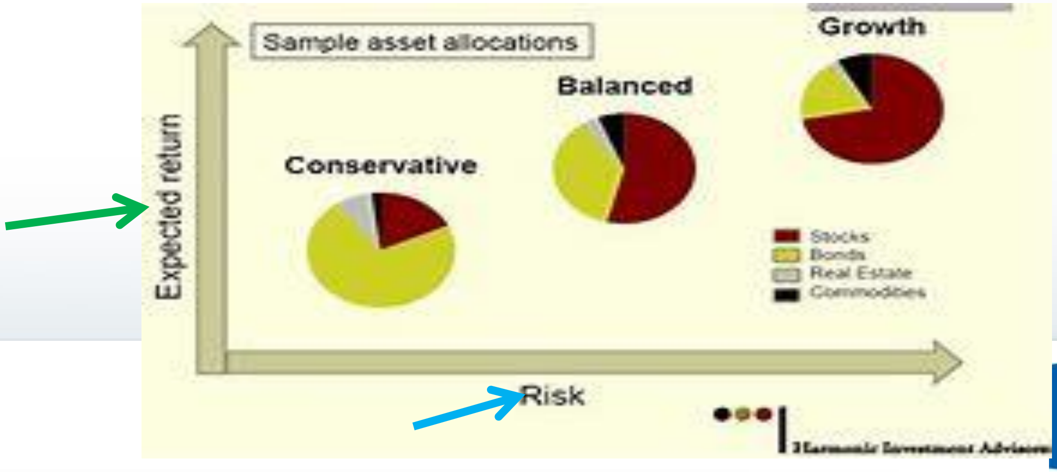


Questions For Yourself

- Do you feel comfortable with your retirement plans?
  - Yes
  - No
- What are your biggest retirement concerns?

What does Asset Allocation Mean?

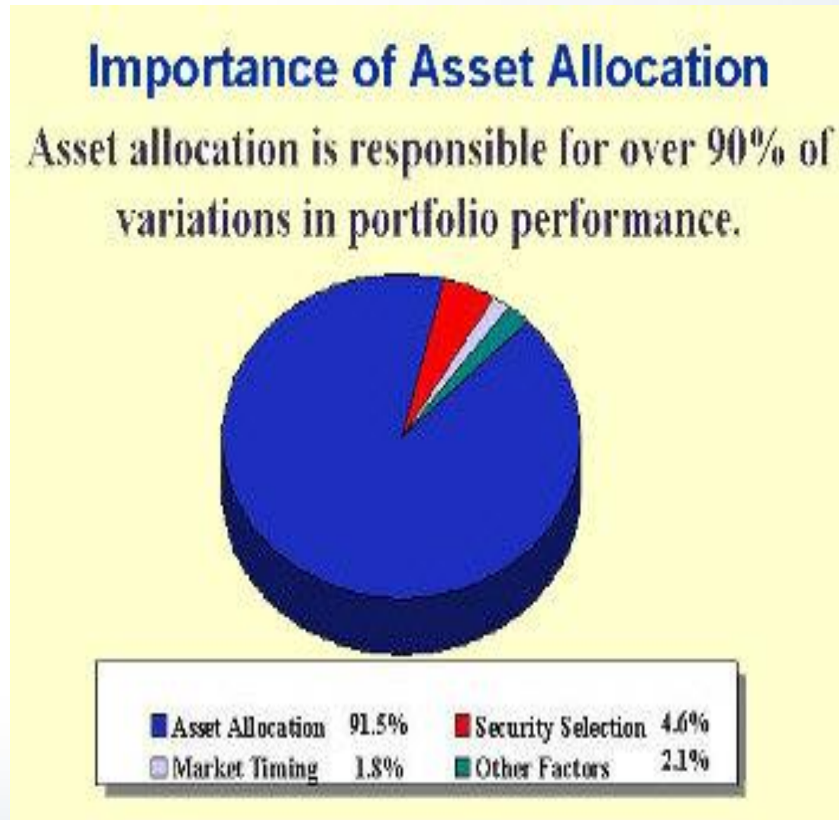
Asset allocation is the implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame.



How important is Asset Allocation?

The most important thing you can have is a good strategic asset allocation mix. So, what the investor needs to do is have a balanced, structured portfolio - a portfolio that does well in different environments.... we don't know that we're going to win. We have to have diversified bets.

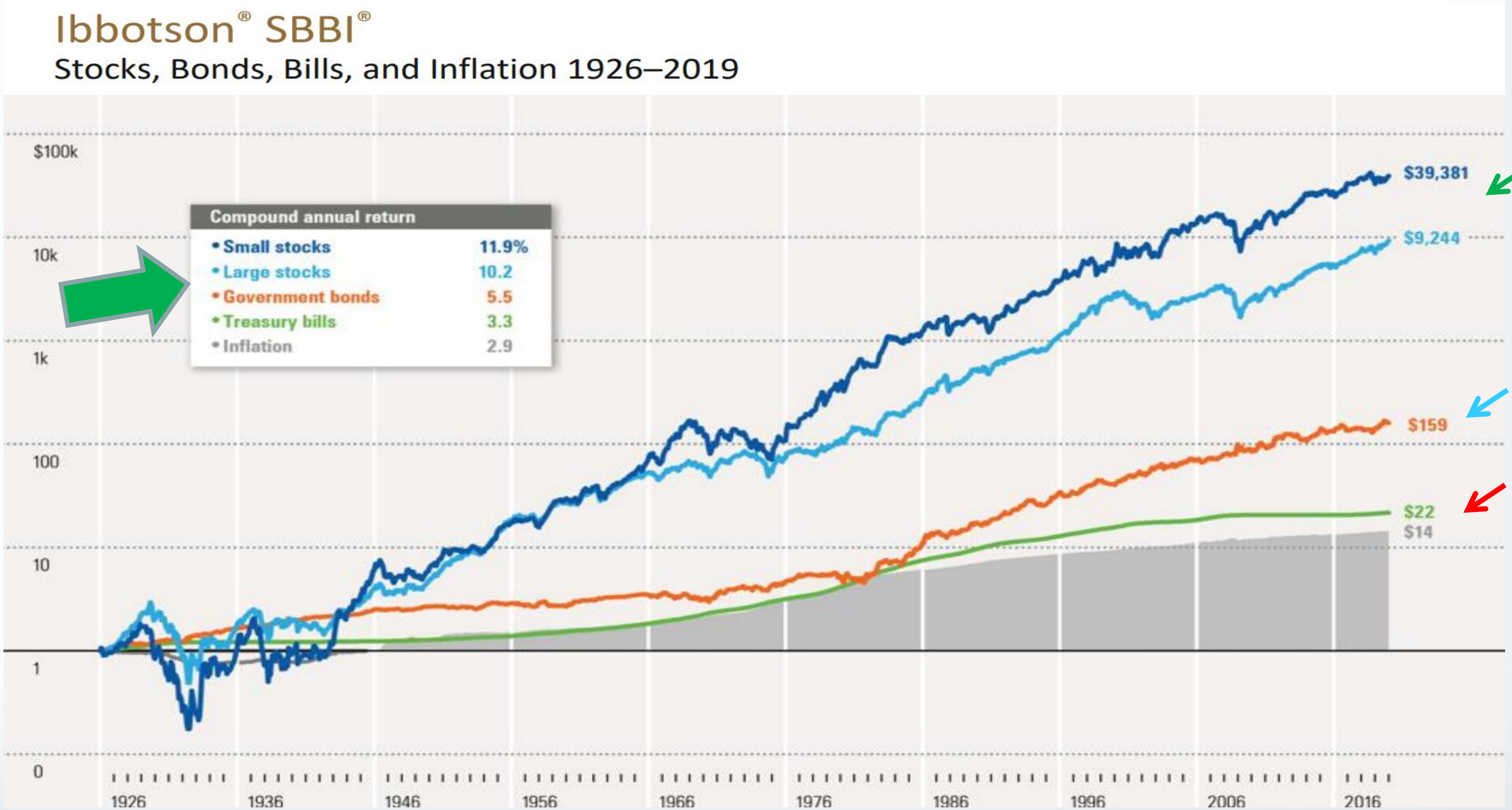
Ray Dalio



Why Asset Allocation is Important?

- Having the right asset allocation during your working years can help achieve a better retirement.
- The time value of money after starting early and consistently is key for many people to have a better retirement.

Investment Performance (1926-2019)



Securities are for educational purposes only

Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
BETTERINVESTING™
Empowering Investors Since 1951

Asset Allocation When You are Young

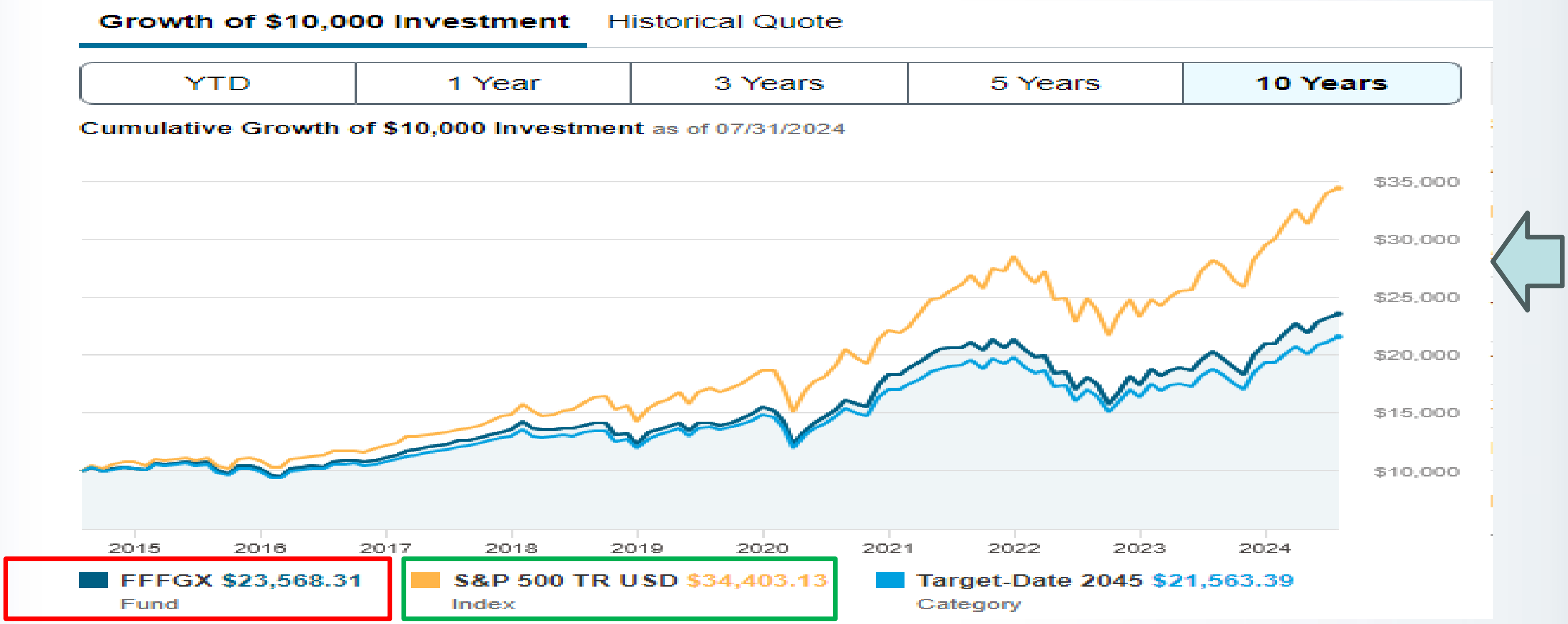
- The amount of time to retirement is very key, thus a healthy allocation to stocks allows you to build wealth.
- Support: Vanguard Target Retirement 2065
- **My opinion**: Have everything in stocks for long term growth.

Asset class	VLXVX
Stock	89.75%
Bond	9.33%
Short term reserves	0.92%

Securities are for educational purposes only

 Source: Vanguard Funds.

Should You have Your Money In A Target Fund?



- This shows the implication of allocating some portion to cash and fixed income vs 100% equity.

Can't Save For Retirement?

- What are you doing to save now?
- One time bonus or tax refund. Save a portion.
- Save $1/day or put your change in a jar – Bank it.
- Pay yourself first and avoid credit card debit. If you use a cash refund credit card, save the refund.

Hard to save and not touch it.

- *Class suggestions?*

You Can't Afford To Wait To Start Saving

	$50,000	$75,000	$100,000	$150,000	$200,000	$250,000	$300,000
Start saving age	Savings rate (x current household income)						
25	7%	10%	11%	13%	15%	16%	17%
30	9	13	14	17	19	21	22
35	11	17	18	22	25	27	28
40	15	22	25	29	33	36	37
45	21	31	34	41	46	50	52
50	31	45	50	60	68	73	76

How to use:

- Go to the intersection of your current age and your closest current household income.
- This is the percentage of your current household income you should contribute annually going forward if you have $0 saved for retirement today.
- Example: A 40-year-old with household income of $100,000 and $0 saved for retirement today, will need to save 25% every year until retirement.

MODEL ASSUMPTIONS

Pre-retirement investment return: 6.0%

Post-retirement investment return: 5.0%

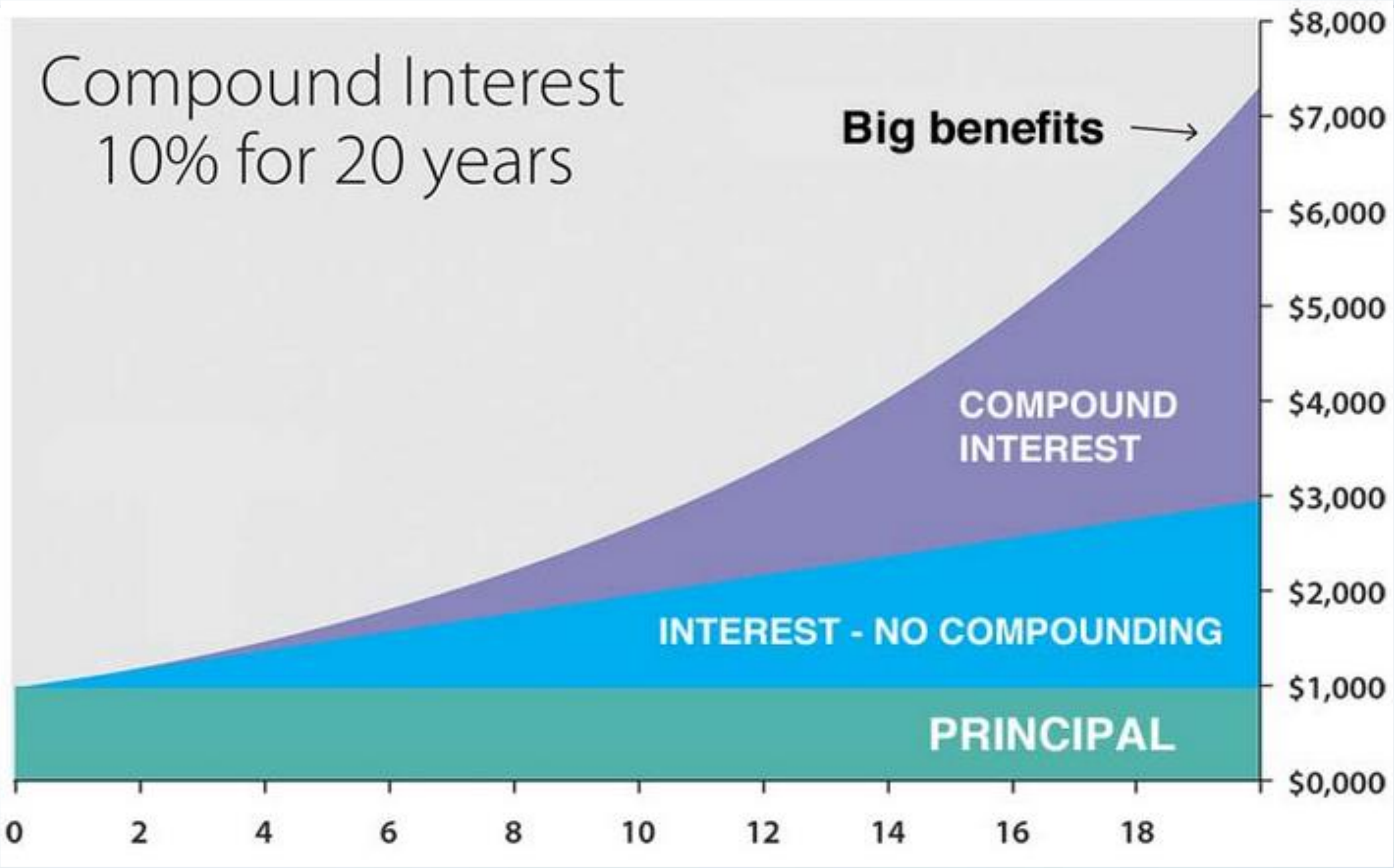
Inflation rate: 2.25%

Retirement age –
- Primary earner: 65
- Spouse: 62

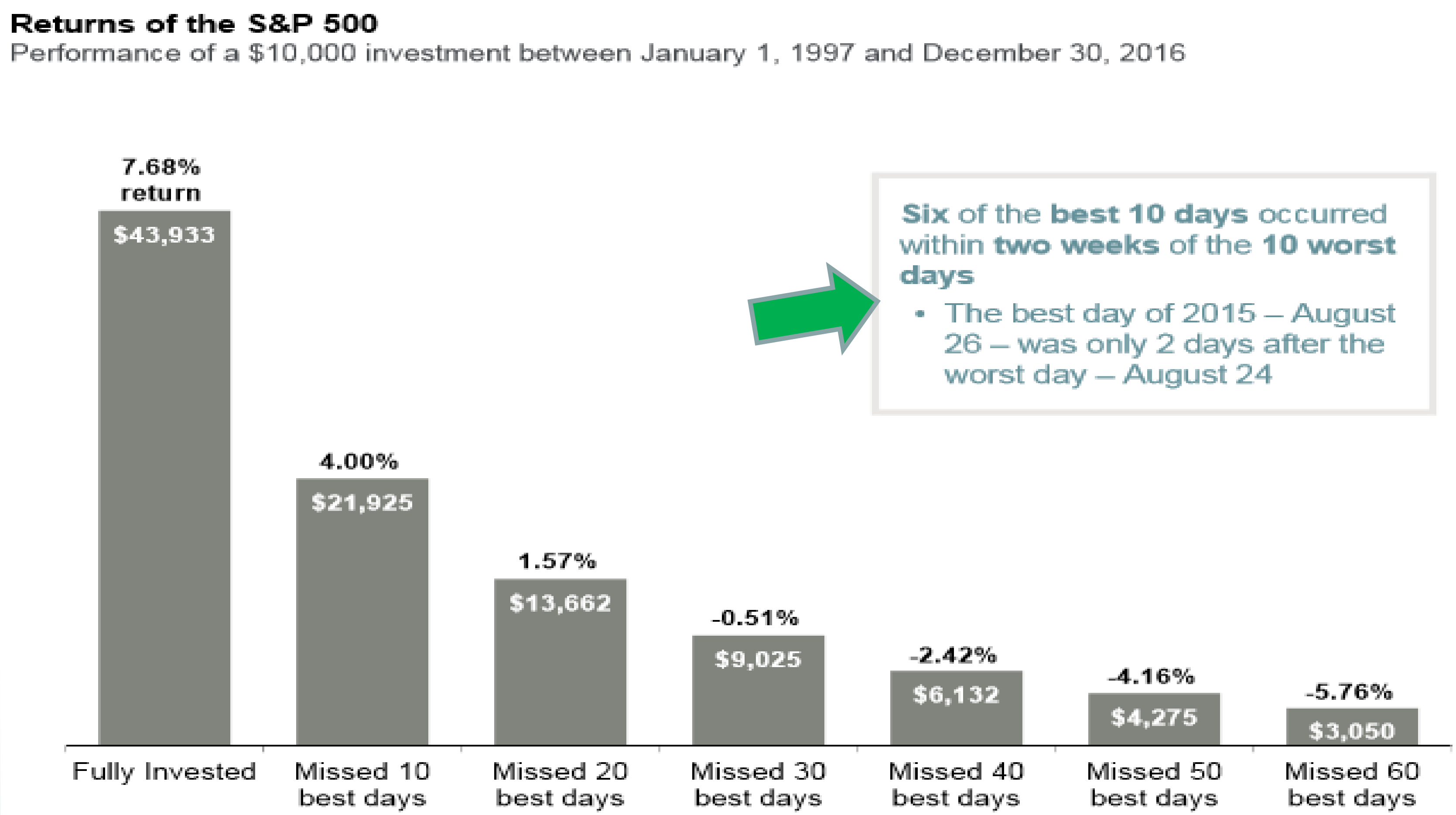
Years in retirement: 30

Source: J.P. Morgan's model.

Time Value of Money – Compound vs Simple

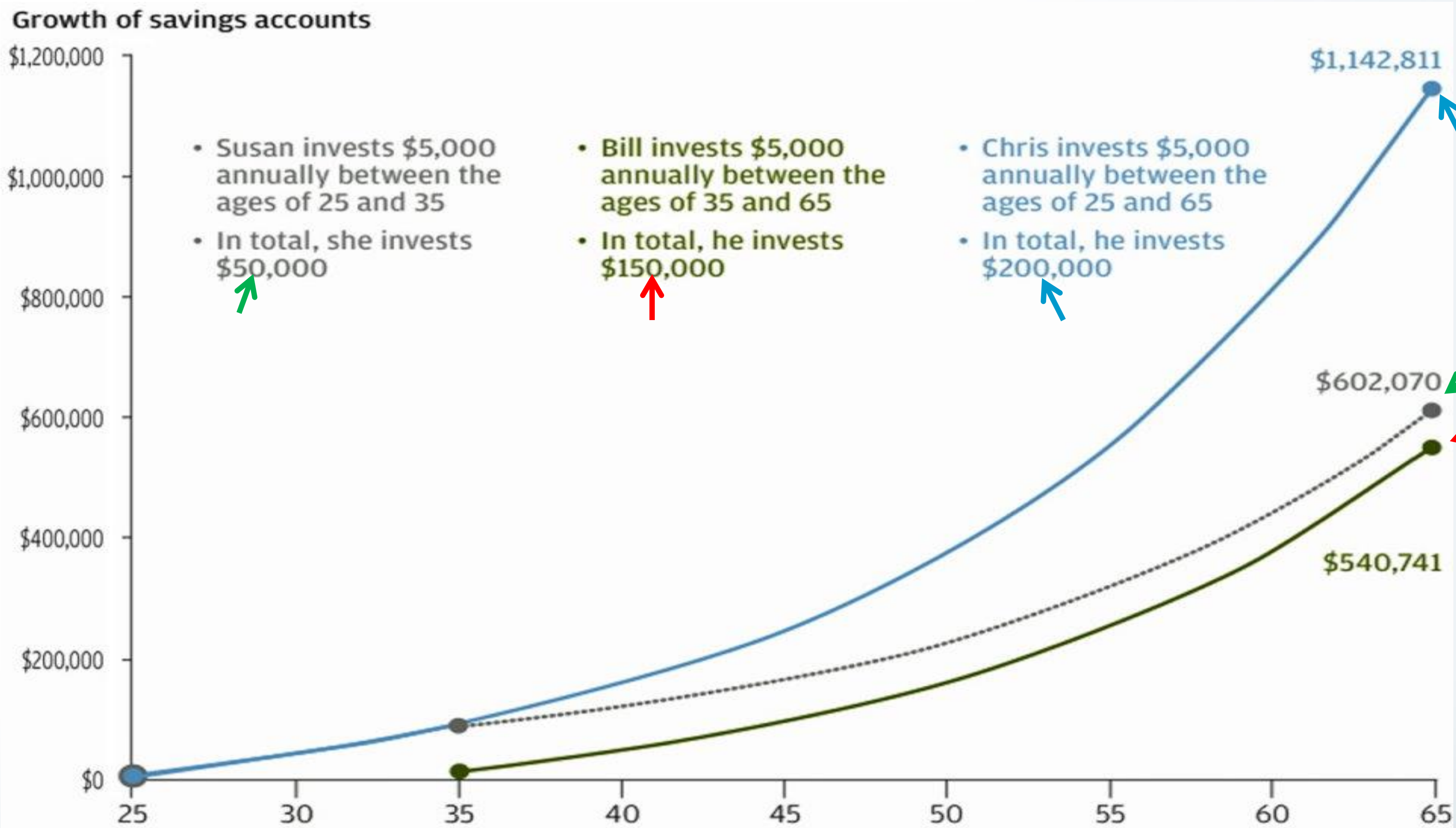


Being Out of the Market



Source: J.P. Morgan Asset Management analysis using data from Bloomberg.

Starting Early and Consistently is Key



Source: J.P. Morgan Asset Management, Long-Term Capital Market Assumptions.

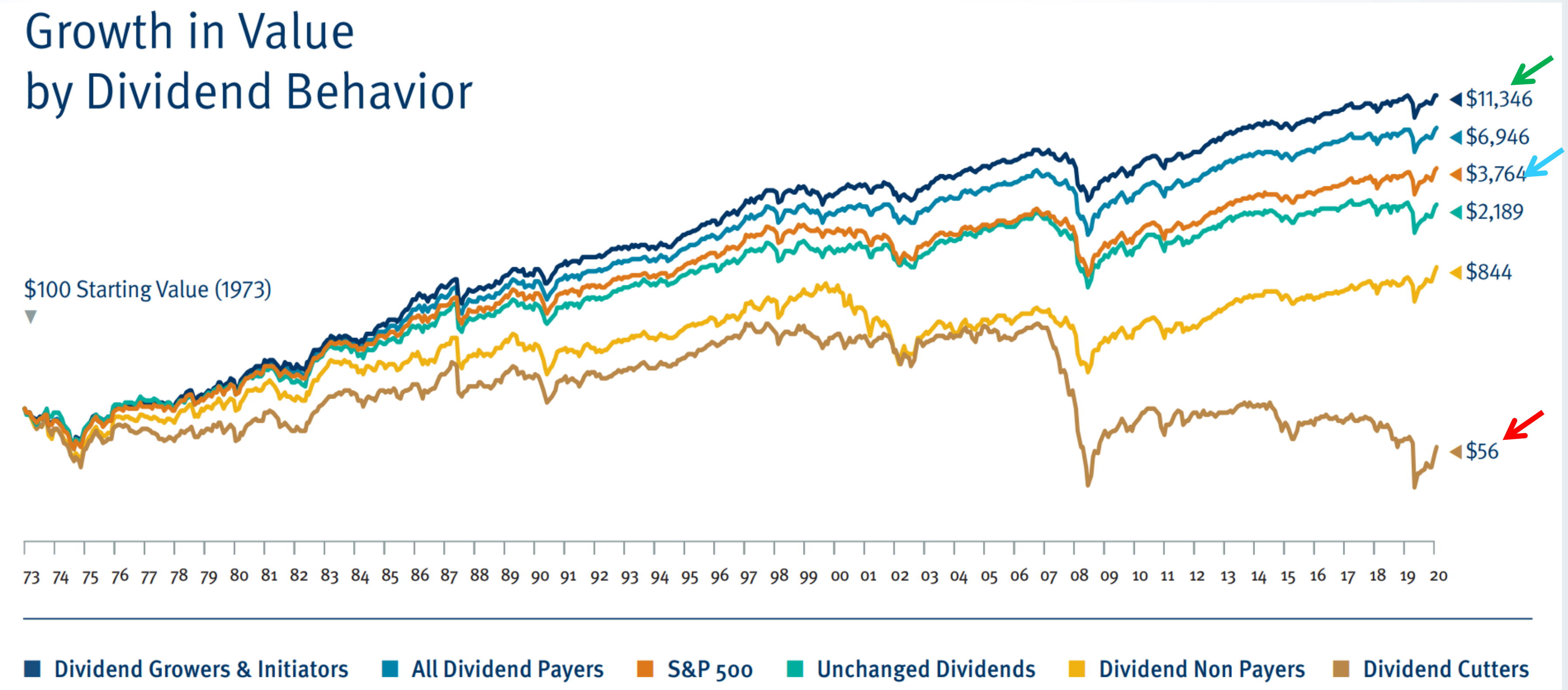
Some Key Metrics to Think About

- How much money will you need in retirement? *Lifestyle question.*
- What is your debt plan in retirement?
- How long will you be in retirement?
- When will you retire?
- How much can you put away each year? 15-20% of your income? *Spending leaks.*
- How much do you have now?
- What kind of return should you expect?

Building Unearned Income Streams

- During your lifetime, what you want to build is future income streams. These could be:
  - *Rental real estate*
  - *Dividend income from stocks*
  - *Interest income from bonds*
  - *Ownership in a business*

Growing Dividends Streams



Source of chart data: Ned Davis Research, 12/31/20. © Copyright 2020 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers, refer to www.ndr.com/vendorinfo. Returns based on equal-weighted geometric average of total return of dividend-paying and non-dividend-paying historical S&P 500 Index stocks, rebalanced annually. The chart uses actual annual dividends to identify dividend-paying stocks and changes on a calendar-year basis. The performance shown is not the performance of any Washington Crossing Advisors strategy. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment. Past performance does not guarantee future results.

Securities are for educational purposes only

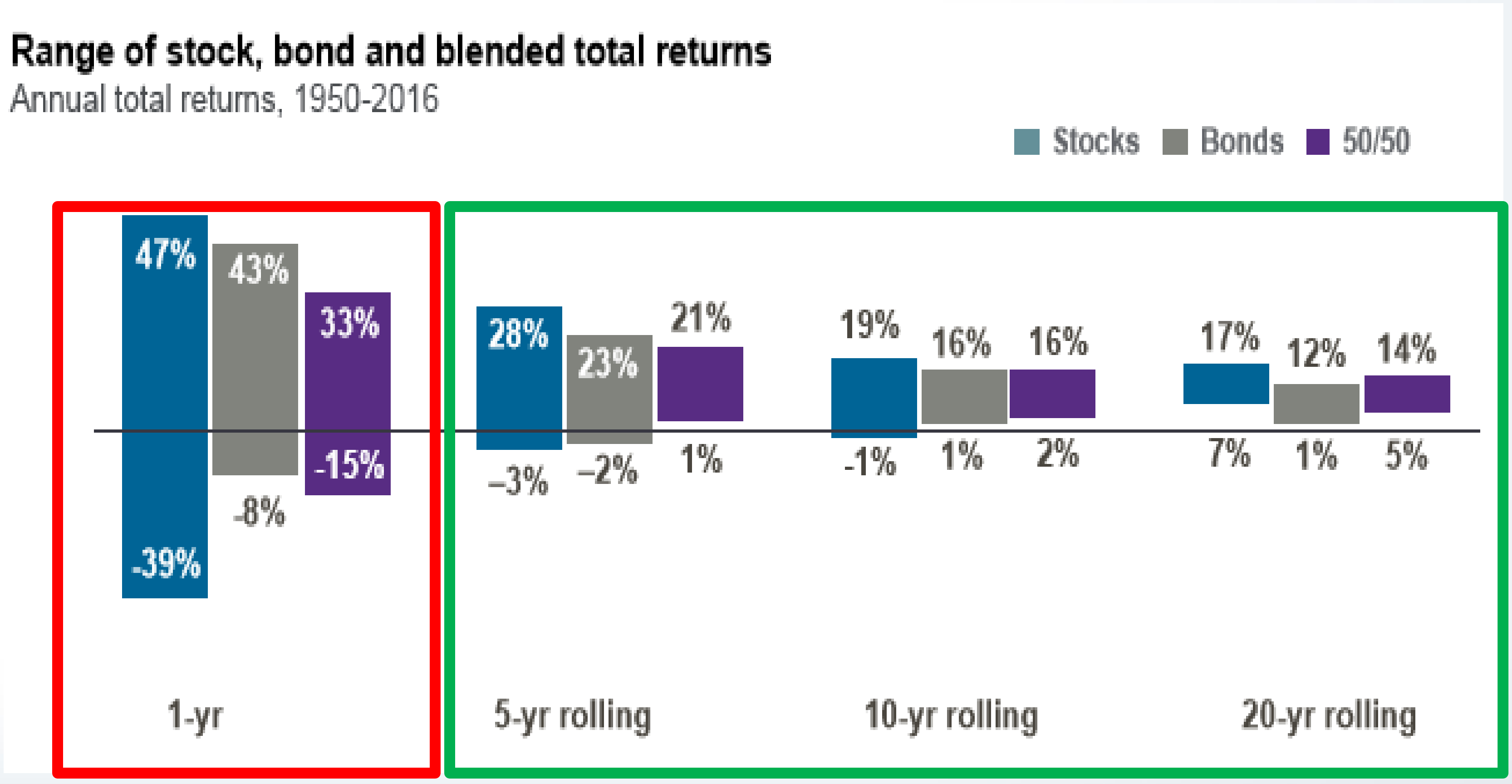
Source: Ned Davis Research and Washington Crossing Advisors.

Any Questions So Far?

We Think There is an Important Time Period Prior to Retirement

- Studies show that your retirement can be impacted severely if a recession hits just as you are retiring. Flexibility is key.
- In my opinion, the key time period is when you get within 5-10 years of retirement….
- You control your needs, It make sense to become more conservative at this time.
- Payoff your debt – sure, if it fits financially.
- What are your assets versus your needs?

Range of Rolling Returns

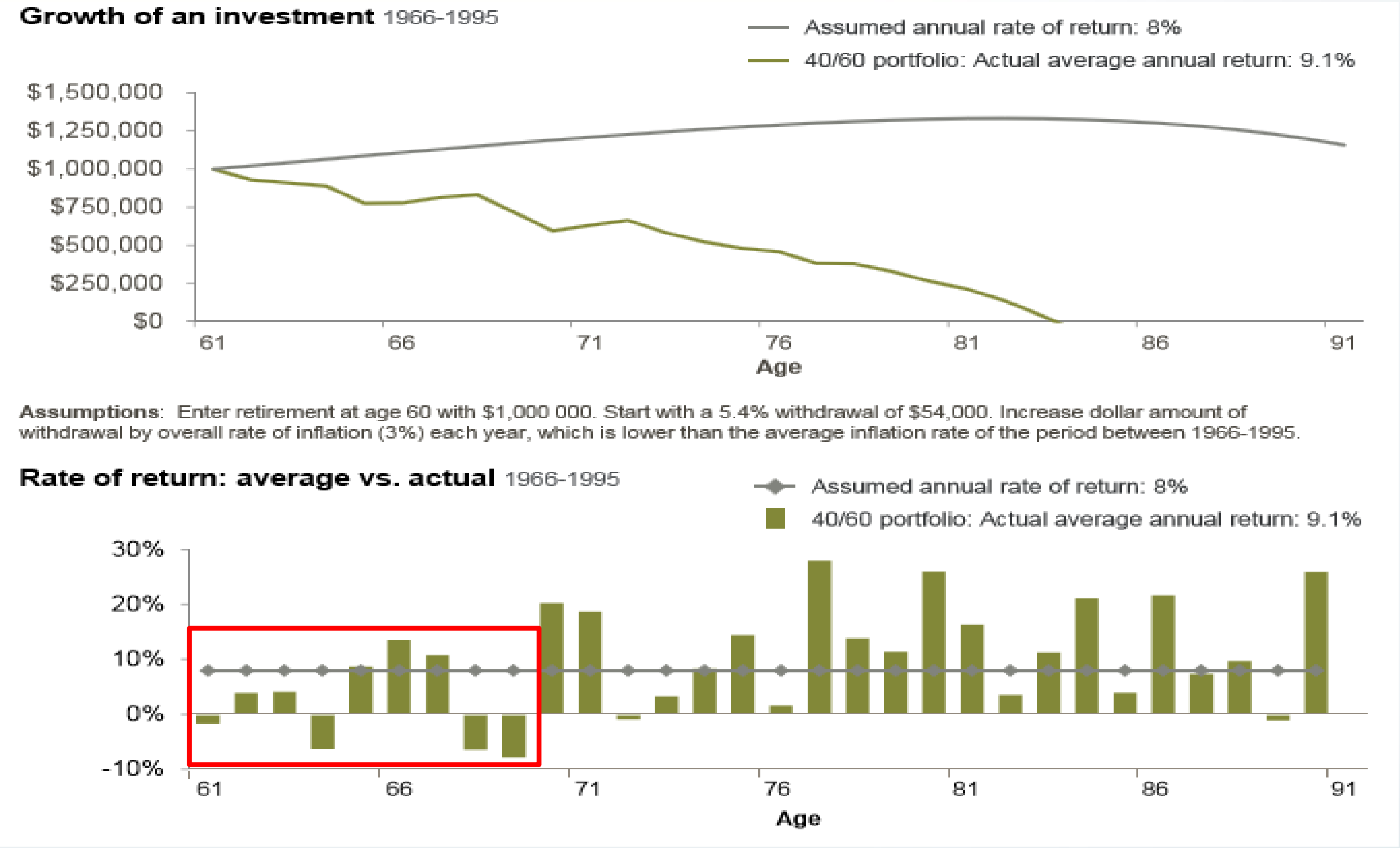


Source: Barclays Capital, FactSet, Federal Reserve, Robert Shiller, Stategas/Ibbotson, J.P. Morgan Asset Management.

Asset Allocation During These Two Key Periods

- When retirement is 10 years away, make sure you understand your needs. This should impact your asset allocation.
- The 5-year mark is key, fine tune plans and start moving towards more conservatism.
- You can't afford to lose too much unless you are willing to work longer.
- This assumes you have enough!
- Is everyone on the same page?

The Big Risk – Running Out



Source: J.P. Morgan Asset Management. Returns are based on a hypothetical portfolio, which is assumed to be invested 40% in the S&P 500 Total Return Index and 60% in the Barclays Capital U.S. Aggregate Index. The assumptions are presented for illustrative purposes only.

One Rule of Thumb – The 4% Rule

- This might be a good place to start.
- Its goal is to determine how much you should withdraw annually once you're retired. Take 4% of the assets in the first year and then increase each year by inflation.
- Does this meet your spending needs?
- If not, something has to shift. Your need? When you want to retire?
- Example:
- A $1 million portfolio invested generates $40,000. Add Social Security benefits. What is your need?

Source: Bankrate.com. 8 Rules of Thumb on Savings and Retirement.

More Thoughts on the Last 5 Years

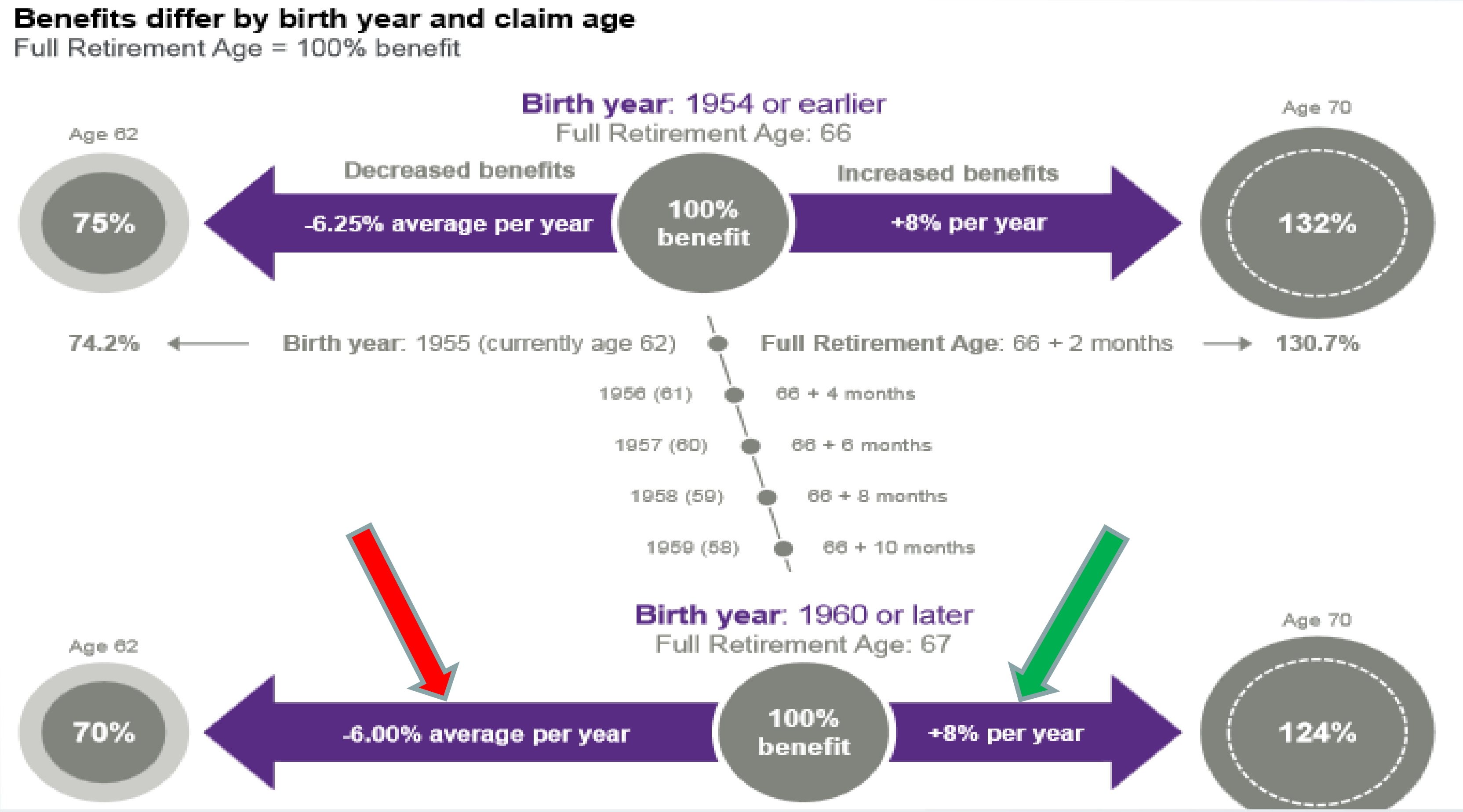
- Review and prioritize your goals and needs – categorize them. You control your costs.
- Timing can change or the amount you want/need can change.
- Build unearned income streams.
- Understand what you will get from Social Security, pension or annuities.
- Plan on when you might take it.

Social Security

- If you are 65 years old, you can live a long time in retirement:
  - A man can expect to live another 18.2 years.
  - A woman can expect to live another 20.8 years.
- Most (free) retirement income calculators don't talk about the considerable uncertainty as to Social Security benefits.
  - Be aware funding or benefits have to change in the next 20 years for benefits to continue at the same rate. Congress is starting to talk about it.

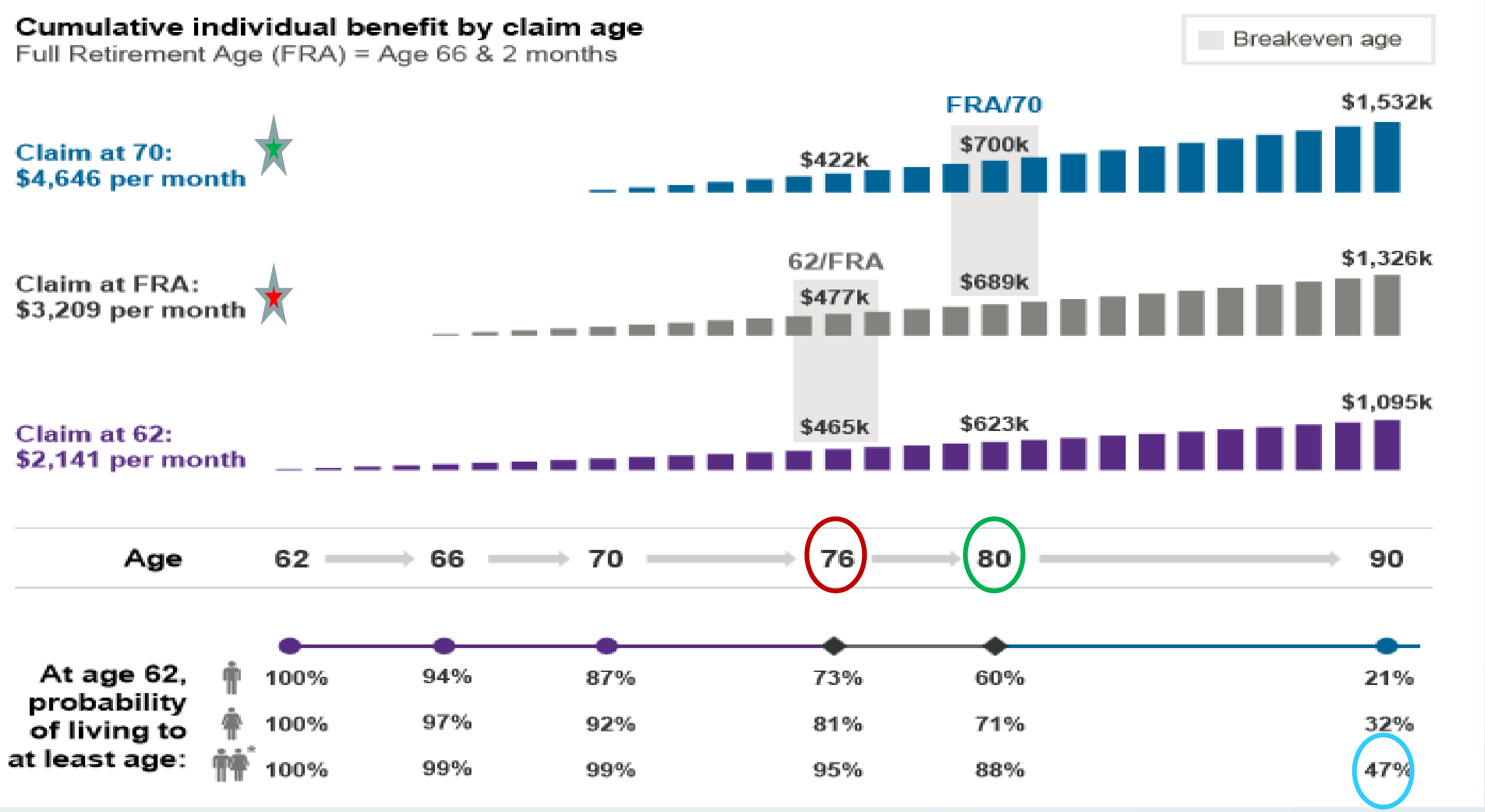
Source: Social Security Administration's Life Expectancy Calculator. CDC 7/2022.

When to take Social Security?



Source: Social Security Administration, J.P. Morgan Asset Management.

Maximizing Social Security?



Source: Social Security Administration, J.P. Morgan Asset Management.

Figuring Out How Much You Will Need

- Estimate how much you'll spend in retirement.
  - Total monthly expenses. *Do a 3 month test?*
  - Add one-time expenses – Trips, weddings…
  - Will you stay in the local area or move, is downsizing in the cards – lots to think about.
- Calculate what you will collect in retirement from pensions and Social Security.

The difference is what you will need to make up from your personal savings/investments.

Putting It All Together – Assumptions

Monthly

- Income needs: 70 – 100% Of spend — **$5,000**
  - Don't forget about new things to do
- Compare to the total streams of income
  - Pension, annuity, bus./rental income — **$1,000**
- Social Security amount — **$1,500**
- **Net shortfall that needs to be made up from your savings/investments.** — **-$2,500**
- If you use 4% rule on \$500k assets — **$1,667**

Shortfall — **-$833**

Something needs to change.

Retirement Rules of Thumb

- You'll need 70%-80% of your pre-retirement yearly salary to live comfortably. (Assumes house is paid off.)
- If not or you want to travel, maybe it is 100%.
- Aim to save at least 1x your salary at 30, 3x at 40, 7x at 55, 10x at 67. (Fidelity)
- Plan to save around eight times your final income.
- The **25X Rule** estimates how much money you'll need in retirement by multiplying your annual income goal by 25. *$40k x 25 = $1 million assets.*

Source: US News & Report, 2013/08/02. 7-rules-of-thumb-for-retirement-planning.

Retirement Savings Checkpoints

Lower forward-looking returns may require higher savings going forward

Values assume you would like to maintain an equivalent lifestyle in retirement

Current age	$50,000	$75,000	$100,000	$150,000	$200,000	$250,000	$300,000
	Checkpoint (x current household income)						
25	-	-	0.2	0.7	1.0	1.3	1.4
30	-	0.5	0.8	1.3	1.8	2.1	2.2
35	0.3	1.2	1.5	2.1	2.6	3.0	3.2
40	0.8	1.9	2.3	3.1	3.7	4.1	4.3
45	1.5	2.8	3.3	4.2	4.9	5.4	5.7
50	2.4	3.9	4.5	5.6	6.4	7.0	7.3
55	3.4	5.2	5.9	7.2	8.2	9.0	9.3
60	4.5	6.8	7.5	9.1	10.4	11.2	11.7
65	6.1	8.8	9.8	11.7	13.3	14.3	14.8

How to use:

- Household income is assumed to be gross income (before tax and savings).
- Go to the intersection of your current age and your closest current household income.
- Multiply your salary by the checkpoint shown. This is the amount you should have saved today, assuming you continue contributions of 10% going forward.
- Example: For a 40-year-old with a household income of $100,000: $100,000 x 2.3 = $230,000.

MODEL ASSUMPTIONS

Assumed annual gross savings rate: 10%*

Pre-retirement investment return: 6.0%

Post-retirement investment return: 5.0%

Inflation rate: 2.25%

Retirement age –
- Primary earner: 65
- Spouse: 62

Years in retirement: 30

*10% is approximately twice the U.S. average annual savings rate

Source: J.P. Morgan's model.

Successful Financial Thoughts

- Have an emergency fund equal to six months' worth of income. (Everyone)
- Expect to get an average of 7 to 8 percent per year from a diversified domestic stock portfolio (Everyone).
- **Pay yourself first** - Save at least 10 percent of your income for retirement. (Young people)
- Be **flexible** with your retirement plan.

Calculators and other resources

- Some online calculators can help in projecting future retirement income streams. But they still simplify the world – **Look at more than one**.

Online retirement calculators – Lots of options.

http://money.cnn.com/calculator/retirement/retirement-need/
WWW.bankrate.com
Bank Rate is good for people without a pension plan.
Edward Jones had a simply calculator to determine asset level in future.
AARP has a decent calculator, but a bit tough to navigate.

Other Resources:
http://money.cnn.com/retirement/guide/basics_basics.moneymag/index12.htm
http://retirement-cafe.com/The-New-Retirement.html

Retirement Mistakes

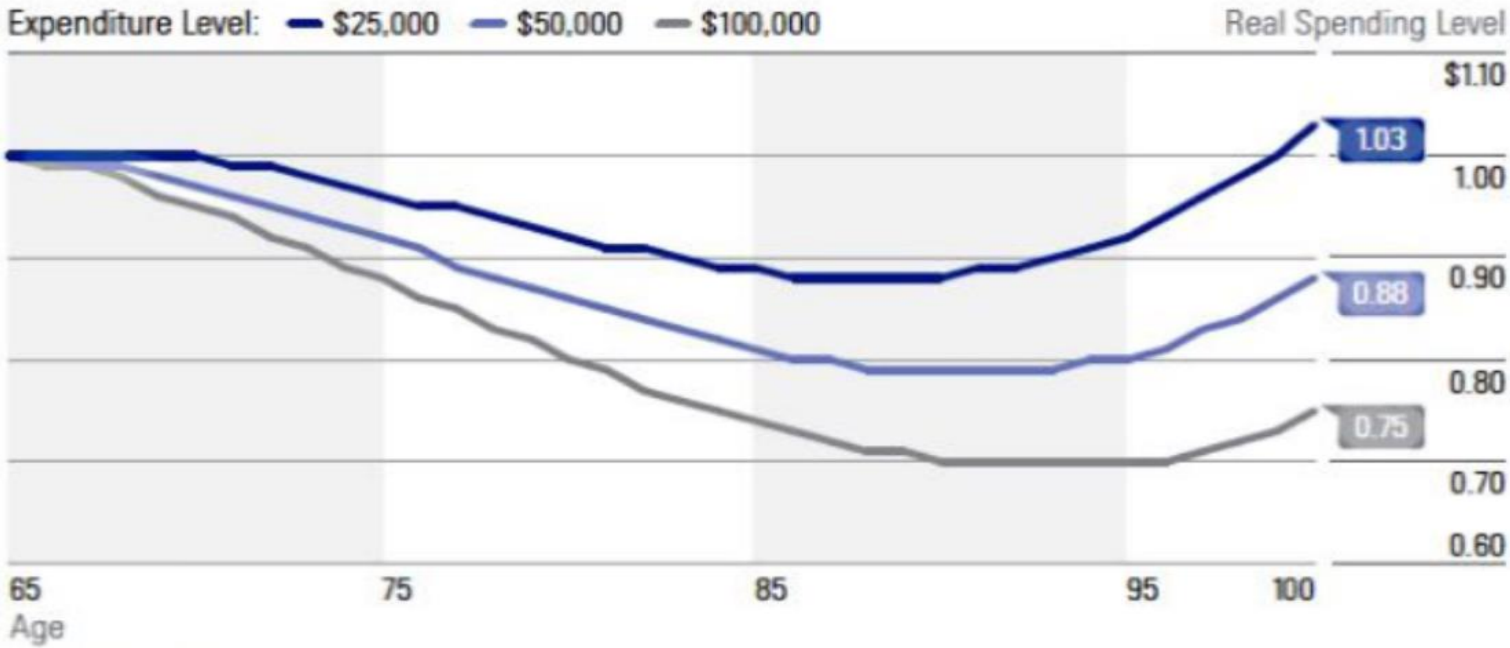
- Not getting the maximum match from your 401k plan.
- Missing the 60 day IRA rollover deadline.
- Leaving an ex on a beneficiary form.
- Ignoring spousal right to a 401k.
- Neglecting to name a contingent beneficiary.
- Neglecting to take an RMD from an inherited IRA or your IRA Rollover accounts at 72 currently.
- Dipping into retirement savings comes with a heavy cost and consequences.
- 40% of employees cash out their 401(k)s when they leave.

A second opinion could be valuable in checking on your retirement plans and concerns.

Source: Pontera Newsletter, 3-2023. Forbes Magazine.

The Retirement Smile

The Retirement Spending Smile Real consumption among retirees tends to decline in the first two decades of retirement before increasing at later ages. The effect varies by income group.

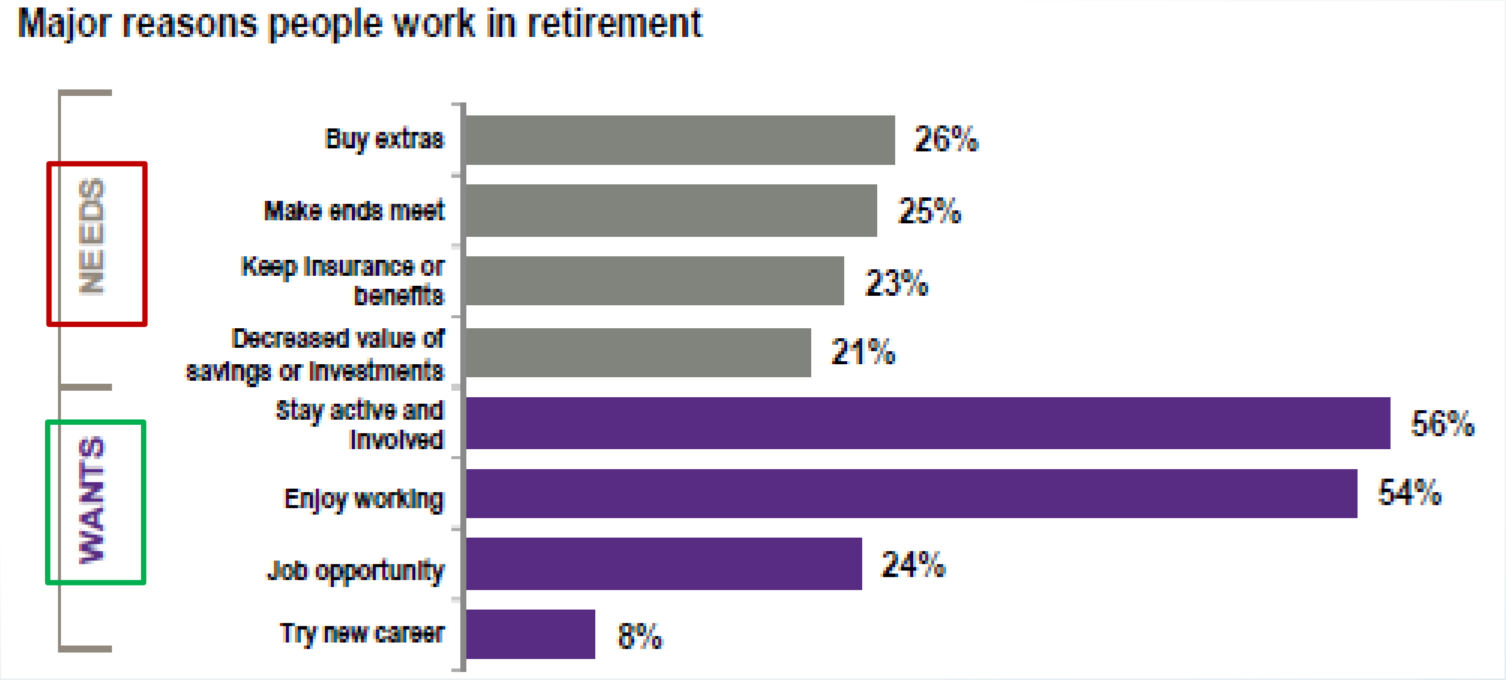


Source: Morningstar.

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
BETTERINVESTING™
Empowering Investors Since 1951

Retirement is NOT all About the Money!

Have a plan on what you will do in retirement. How will you spend your time?



Source: Employee Benefit Research Institute, Mathew Greenwald & Associates, Inc., 2014 Retirement Confidence Survey.
Data as of March 2014. Latest available data through December 31, 2015.

There are Other Things Than Money

- What should you plan or think about when you have retired:
  - Maintaining your health,
  - Developing/improving relationships with family and friends,
  - Some people go to spiritual fulfillment,
  - Others look to follow their passions/hobbies.

I think you need to have a plan going into retirement as to what you will do. Possibly working at some level.

Retirement Might not go According to Plan

- A recession happens early in your retirement.
- You lose significant wealth.
- You lose your health.
- Some retirees find they still have significant family responsibilities. Nearly half a million grandparents aged 65 or more, have the primary responsibility for their grandchildren who live with them.

Thus you must be flexible.

Source: The Administration on Aging.

What Could You Do Next?

- How far away are you from retiring?
- Where do you stand financially?
- Risk assets - real estate and stocks could be a decent portion of your net worth.
- Our data shared on stocks suggest they could be a good way to go over the long term.
- Think about what if questions and your responses.
- If you need to grow your stock assets, BetterInvesting and investment clubs could help.

A Club’s Core Beliefs

- Investment clubs provide a safe and supportive way to learn how to invest.
- Together we can do more
- Successful stock investing is possible for everyone

Invest Regularly

Reinvest Dividends

Buy High Quality Growth Stocks

Diversify by Industry & Company Size

See An Investment Club In Action

- www.betterinvesting.org/chapters/san-francisco-bay-area/visit-a-club


San Francisco Bay Area Chapter
Local Events
Contacts
Model Investment Club
Visit-A-Club
Investment Club Support
News & Articles
Volunteering

BETTERINVESTING™
San Francisco Bay Area Chapter

Visit-A-Club

The Visit-A-Club program provides individuals an opportunity to visit an investment club that welcomes guests. Below is information for individuals looking for a club to visit and is followed by information for clubs to apply to the program.

For Individuals:

If you are interested in visiting an active investment club that invests according to BetterInvesting principles, check clubs that welcome visitors in your area. Read our Visitor FAQs and "What Makes a Good Club" before visiting a club.

Participating clubs from this Chapter

***Disclaimer**: BetterInvesting and its local chapters do not endorse or otherwise recommend joining a specific investment club, nor are we affiliated with any investment club that participates in the Visit-A-Club program other than chapter run model clubs. Investment clubs are separate, private entities, composed of individuals who elect other club members. BetterInvesting does not guarantee results of any clubs.*

- Visit the SF Model Club – we meet virtually, 2nd Thursday of the month.   5:45 pm to 7:45. Open to visitors.
- To visit, email: contact@sanfran.betterinvesting.net

Summary

- To have a successful retirement, planning and flexibility is required.
- Retirement will our happiness.
- Try to build various income streams.
- Review your assets, understand your social security and retirement benefits.
- Finally, understand your financial needs.

Questions?

My contact information is:
craigbraemer1@gmail.com
www.Betterinvesting.org