Retire With

Wisdom

USING STEWARDSHIP PRINCIPLES TO HELP YOU GET THE MOST WITH WHAT YOU GOT

Steve Vasgaard, RICP® and Patrick Carmichael

This book discusses general concepts for retirement planning, and is not intended to provide tax or legal advice. Individuals are urged to consult with their tax and legal professionals regarding these issues. It is important to know a) that annuities and some of their features have costs associated with them; b) that annuities used to fund IRAs do not afford any additional measure of tax deferral for the IRA owner; c) that income received from annuities and securities may be taxable; and d) that securities' past performance does not influence or predict future results.

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18 MAJOR RISKS TO YOUR RETIREMENT

"Wisdom is a shelter as money is a shelter, but the advantage of knowledge is this: Wisdom preserves those who have it."
– Ecclesiastes 7:12

As a current or aspiring retiree, you're likely worried about how best to shelter the wealth you have worked your entire life to build. Where would be the wisest place to put this money? Should you keep it invested in the stock market? Put the majority in bank CDs? Invest in an annuity? These investment decisions don't stand alone, however, they are also connected to other issues such as Social Security filing, tax liability and funding the cost of long-term care. How you address these multiple issues directly affects how long your money will last, because during retirement, it's not just about earning a rate of return, it's about learning how to do the most with the dollars that you already have.

We are Steve Vasgaard and Patrick Carmichael, financial advisors and Investment Advisor Representatives at Wealth and Retirement Strategies, Inc. As financial professionals, we take the job of wise stewardship seriously. In today's global economy, it's not enough to prepare for the one or two risks that harm your retirement: you want to prepare for all of them. The number one concern for retirees today is the fear of running out of money.* As you consider the next 30 to 40 years with an eye for all the issues and changes that might come up—both in the world and in your personal life—then you'll see why the wisdom of sound money management is more important now than ever before. Understanding the basic fundamentals of how money works can lead to stable income, less risk, and a greater legacy. This wisdom also helps you avoid the stress and anxiety that comes from decisions based on feelings, emotions or sales hype generated from individuals who don't have your best interests at heart. That's why we work first to educate and second to serve.

Ask yourself, if you had to choose between overnight wealth, or the wisdom to create and take care of that wealth, which would you choose? In our experience, ninety-nine percent of the people we work with would rather have the wisdom, because with that wisdom, you will have the ability to become a better steward of all that you currently own.

WHAT DOES WISE STEWARDSHIP HAVE TO DO WITH YOUR RETIREMENT?

The term stewardship in the Bible is used to remind us that everything we have here on earth is ultimately on loan. A steward

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* *http://www.usatoday.com/story/money/personalfinance/2014/09/24/investors-fear-outliving-retirement-savings/16095591/*

during the feudal days of lords and ladies was known as the keeper of the hall, tasked with guarding the wealth and managing the household. Although a steward often delegates his duties, he always holds himself accountable for everything that happens under his watch. But what does this old-fashioned-sounding word have to do with your investments and the security of your retirement today?

The principles of wise stewardship remind us that as stewards of our wealth, we are charged with the responsibility of managing these finances to the best of our ability.

Making wise decisions about what you do with your money is more than just a Biblical directive; it is the foundation of a knowledge-based approach to retirement planning that can lead to the greatest wealth and peace of mind. When you approach your money as a wise steward, you no longer make decisions from a place of fear, anxiety and hearsay, but rather from a place of understanding and knowledge. Instead of entering into retirement with the stress that comes from *hoping* you have enough money, you can enjoy the fruits of your labors and the peace of mind that comes from *knowing* you've got a plan that prepares you for both the best and the worst.

The word steward originates from the Old English word for *guard*.* If you want to guard the future of your retirement, create a lifetime of income, reduce risk and protect your legacy, then you need to be aware of all the risks you will face and create a defensive strategy. While offensive strategies might score points, offense alone doesn't win you the championship. After spending a lifetime building up your nest egg, we believe you deserve a plan that delivers a winning retirement, which is why we don't just focus on scoring returns. We look at what all your opponents

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* *http://www.etymonline.com/index.php?term=steward*

are doing, metaphorically speaking, and how that can affect your bottom line.

Everybody talks about what the stock market is doing and the loss of savings that can occur there, but there are many other factors that don't get talked about that can be equally damaging to your retirement funds. We want to be as comprehensive as possible when considering the threats to your future, which is why we take a look at all 18 risks and evaluate our planning defenses accordingly.

The following list includes: The 18 Major Risks that can impact your retirement income and the quality of your retired life. To help you keep them straight in your mind, we've organized those risks into the following five main categories: Outliving your Resources, Risks Associated with Aging, Investment Risk, Employment Risk, and Risks that Have Nothing to do with You.

OUTLIVING YOUR RESOURCES

If we all knew exactly how long we were going to live, then retirement planning would be a breeze. Imagine you knew without a doubt that you would live until the age of 82. You'd confidently put all your money into a plan that would have you cashing your last paycheck after 81 years and 12 months, and there would be no fear of outliving your money. However, that's not how real life works. The medical community and modern doctors have put us in a position now where our life expectancy is getting farther and farther out, and none of us knows exactly how long we might live. Obviously this is a concern because the longer we live, the more it will cost. Outliving your resources includes the risks of longevity, inflation and excess withdrawal risk.

1. **Longevity:** Most retirees today are living longer than their parents did. According to the Social Security administration, the average man in 1950 lived to be 65 years old, and the average woman lived to be 71. Today, men are living

an average of 19 years longer and women an average of 15 years longer, which means if you retire at age 65 today, you need to plan for at least 20 more years of income.* If you are above average, than you'll want to plan on living even longer, which means taking a close look at the next category: Risks Associated with Aging.

2. **Inflation**: Growing your savings so they can keep up with inflation isn't as easy as it used to be. As of the writing of this book, today's inflation rate is low, but when you consider the average rate of 3.22 percent, that means prices will double every 20 years.** Keeping your money under the mattress (or in corresponding no-risk investment vehicles) might keep your savings safe, but in 20 years, you're going to find yourself short on funds. Chapters 1 and 2 outline a process that can help you organize your assets according to risk and the Color of Money so you can have a plan that provides an appropriate balance of growth and safety for you.

3. **Excess withdrawal risk**: During your working years, you are in *the accumulation phase* of life, because your focus then is on the growth and accumulation of assets. In simple terms, you are putting more money into the pot. Once you retire, however, you start withdrawing that money. This is known as *the distribution phase*. One of the biggest factors influencing whether or not you will be successful during retirement has to do with *the rate at which you take that money out of the pot.* **Take out too much too early, and you might find out too late that you are going to live too long.** Chapter 3 takes you through the

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* *http://www.ncbi.nlm.nih.gov/books/NBK62373/*

** *http://inflationdata.com/Inflation/Inflation_Rate/Long_Term_Inflation.asp*

'Floor Approach' of income planning so you can figure out just how much to take out and when. This plan also takes into account the "what if" questions of, *what if something happens to my spouse* and *what if I get sick and need some form of long-term care.*

RISKS ASSOCIATED WITH AGING

We cited statistics earlier pointing to the increased longevity enjoyed by today's retirees. A closer look at these statistics also points to the reality that the older you get, the greater the chances are that you will keep right on living. About one out of every four 65-year-olds can expect to live past the age of 90, and one out of 10 will live past the age of 95.* These bonus years can be a blessing or a curse, depending on how well you plan. As we age, our bodies get tired and start to wear out, which makes it harder to do the things we are used to doing without a little help. How you go about getting that help is what can present the following set of risks: health care expenses, frailty, long-term care costs, and financial elder abuse.

4. **Health Care Expenses:** The cost of health insurance is often one of the biggest overlooked factors when deciding whether or not to retire early. Because Medicare doesn't go into effect until age 65, there is often a gap in coverage if you leave your workplace and retire early at the age of 62. That three-year window of paying your own health insurance can be a difficult time as the cost of health insurance continues to skyrocket. Understanding what expenses Medicare covers and what expenses you are responsible for is also an important component of a wise stewardship plan.

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* *http://ssa.gov/planners/lifeexpectancy.htm*

5. **Frailty:** Aging doesn't happen overnight: it's a gradual process often compared to the changing of the seasons. While there is always the chance of an accident or sudden disability, most of us find that as we transition into the winter of our life, we run into trouble gradually. It starts with little things such as needing help with grocery shopping or paying the bills. These are known as the instrumental activities of daily living, or IADLs, and they include the following:
   - Housework
   - Managing money
   - Taking medication
   - Preparing and cleaning up after meals
   - Shopping for groceries or clothes
   - Using the telephone or other communication devices
   - Caring for pets
   - Responding to emergency alerts such as fire alarms*

   To help with these activities, you might rely on family or friends, but frailty issues are often the pre-cursers to larger problems down the road. If you are caring for your parents or know someone who is, then you are likely familiar with how these situations can change over the years and snowball into a large and unexpected expense if not planned for.

6. **Long-term Care**: The U.S. Department of Health and Human Services reports that nearly 70 percent of senior citizens turning 65 years old will need some form of long-term care during their lives, yet many people are misinformed about what long-term care services actually

* *http://longtermcare.gov/the-basics/what-is-long-term-care/*

mean.* Long-term care can be simply defined as the payment of money to have someone take care of you. This can include care at home or in a facility, and you might not even be sick in order to need this type of care. Most people who use long-term care service do so because they need help with basic personal tasks such as bathing, getting dressed or getting up from a chair.** The Department of Human Services has identified six activities of daily living (known as ADLs) necessary for daily life.

These activities include the following tasks:

- Bathing
- Dressing
- Using the toilet
- Transferring (to or from bed or chair)
- Caring for incontinence
- Eating***

While you might not need a medical degree to perform these tasks, many families find it necessary to hire professional help. We have first-hand experience of what long-term care services can cost at an assisted living facility in Knoxville, Tennessee. In our case, the expense is $5,000 a month, but because this particular individual needs a little extra help, that adds an additional $1,500 to bring the total cost to $6,500 a month. What would your lifestyle look like if you had to come up with an additional $6,500 a month?

Unfortunately, chances are high that you or your spouse is going to be spending something on some type of

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* *http://longtermcare.gov/the-basics/*

** *http://longtermcare.gov/the-basics/what-is-long-term-care/*

*** *http://longtermcare.gov/the-basics/what-is-long-term-care/*

care at some point in your life. Herein lies the problem: fewer and fewer people are buying traditional long-term care insurance because it's gotten so expensive. The asset-based solutions proposed in Chapter 3 can help make sure you have some kind of plan in place should this become an expense for you.

7. **Financial Elder Abuse**: As a larger percentage of the wealth belongs more and more to retirees, instances of financial elder abuse are on the rise.* What's particularly troubling about this is that as a retiree, you simply don't have the time to go back to work to make up for the losses that result from inappropriate investments. Chapter 2 talks about the importance of working with a financial professional who is legally bound to help you choose investments that are in your best interest and not theirs. Chapter 5 takes a look at the sometimes confusing world of annuities, which is one area where many senior investors are often led astray. We will define the difference between variable and fixed indexed annuities so you can oversee the management of your finances with greater confidence.

INVESTMENT RISK

In the fall of 2008, many retirees went to bed at night and then woke up the next morning with over 40 percent of their retirement savings gone. They had to delay retirement, sell their homes or start looking for employment because the really terrifying thing about losing money in the stock market is that once that money is gone, it's gone. There is no cure, no magic pill and no one to sue to get that money back. What might the market bring in the future? It can get pretty scary for an investors going into retirement today,

* *https://www.sec.gov/news/press/extra/seniors/elderfraud.htm*

which is why a basic understanding of mutual funds and market investments is one of the first things we help our clients to gain when building a retirement plan.

Most investors enter into retirement exposed to much more investment risk than they are aware of. Here are a few investment risks to consider.

8. **Market Risk:** One way to think of market risk is to use the following analogy: Would you drive across the country on a road trip if the price of gasoline were $1 a gallon? Most of us would jump at the chance, thinking: what a great deal! Now, let's say the price of gas is at $15 a gallon, would you still go on that trip? Most people, if they were given the facts and the choice, would determine that $15 a gallon is too high, and that it's in their best interest to wait until prices come down a bit before going on that trip.

   While this is overly simplified, it speaks to the quantifications used when analyzing investments in terms of their price-to-earnings ratio (known as the P/E ratio). Investors use the P/E ratio to determine if a company's stock price is overvalued or undervalued, and it can also be used as an indicator of future market performance. We like to provide our clients with the information they need to analyze the performance of their current investments, which is why Chapter 2 will take a closer look at what's going on inside your portfolio. We also provide reports and tools that can be used to test your current investment under certain market conditions. The Morningstar Report, Rule of 100 Report and the Commentary Report are just a few examples of the kind of reports we offer to help you better determine the market risk that you are currently exposed to.

9. **Sequence of Returns:** We talked earlier about the difference between the *accumulation phase* versus the *distribution phase.* Another way of thinking about your money during retirement is in terms of who is doing the work. Consider the following:

   During your days of employment, you are working to save the dollars. On the day you retire, you are no longer working for those dollars; instead, those dollars must go to work for you. **Now that the dollars become the workers, it's vital to the durability of your portfolio to keep as many of them working for you as we can.** To lose a large amount from this dollar army, so to speak, during the years shortly before or after retirement, is to kill off valuable workers, and as a retiree, you simply don't have time to make up for those dead dollars.

   When you go limping off into retirement with a smaller dollar army, your chances of success greatly diminish. This is what's known in the industry as *Sequence Risk*, and it tells us that more so than the rate of returns, it's the order of the returns that matter most when you are retired. Chapter 6 takes a look at how using the old rules for investing invites the kind of catastrophe that comes from sequence risk and the math of rebounds.

10. **Interest Rate Risk**: When you combine increased longevity with market volatility and inflation, then the need for earnings from safe money investments becomes clear. The problem is that safer investments such as bank CDs have been earning virtually nothing. The last eight years of low interest rates have exposed more and more retirees to the risk of these low interest rates and lost opportunity costs. In order to maintain your current lifestyle, you want to seek investments that provide the right balance between risk, safety and growth. Today's newer indexed annuities

such as those talked about in Chapter 5 give investors one way to profit from market gains without losing money during times of market loss.

11. **Liquidity Risk**: Liquidity refers to an investment's ability to give you quick access to actual cash that you can spend. When an unexpected expense crops up, it's especially important to know where to take the money from during retirement. Should you sell some stocks? Cash in a bond? Or dip into your 401(k) account? It's especially important to take this money from the right place because most people enter retirement with a large pot of tax-qualified money. What does this money qualify for? Taxes. Money in a 401(k) or traditional IRA has been allowed to grow on a tax-deferred basis, which is why taking money from the wrong place at the wrong time can result in a bad surprise come tax season. One way to avoid liquidity risk is to establish a rainy day fund as discussed in Chapter 8.

EMPLOYMENT RISK

Employment risks hit senior citizens from many different directions. There are penalties imposed by the Social Security Administration for retiring early at the age of 62, and there are penalties for working while claiming this benefit. More people are willing to work longer and harder because they don't know if they will have enough money to retire. According to a Gallup survey in 2010, more people said they planned to wait rather than retire at the traditional age of 65.* Still others are juggling family responsibilities in addition to the rising costs of health care, taxes and the unpredictability of the stock market. The risks associated with

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* *http://money.usnews.com/money/retirement/articles/2013/06/10/the-ideal-retirement-age*

working before, during and after retirement that affect retirees today include forced retirement, re-employment, family issues and the penalties that can result from working while claiming Social Security.

12. **Forced Retirement**: While there are many factors that come into play when deciding when to retire, not everybody has a choice. According to EBRI's (2006) report, only 39 percent of individuals who retired early did so because they thought they could afford it.* While the Age Discrimination in Employment Act (ADEA) was amended in 1978 to stop mandatory retirement before the age of 70, there are still many instances where forced retirement happens.** Some companies offer packages or benefit plans to encourage early retirement, while other professions, such as police officers, firefighters or commercial airline pilots, require early retirement for safety reasons.*** Other people retire early due to health issues or other factors not under their control.

13. **Re-Employment**: If you get laid off from your job but find that you still need to work before retiring, there is a high possibility you won't be able to get rehired anywhere. The unemployment rate for people over the age of 55 has nearly doubled since the Great Recession of 2007, and older workers have a much harder time getting hired.**** Part of this has to do with the higher salary that more

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* *http://www.ssa.gov/policy/docs/ssb/v71n4/v71n4p15.html*

** *http://www.ssa.gov/policy/docs/ssb/v43n11/v43n11p20.pdf*

****http://www.cato.org/publications/congressional-testimony/mandatory-retirement-age-rules-is-it-time-reevaluate*

**** *http://money.usnews.com/money/blogs/planning-to-retire/2012/05/18/why-older-workers-cant-get-hired* experienced workers command; the other factor has to do with out-of-date skills and the prevalence of younger bosses. Whatever the reason, getting laid off before you are ready to retire can pose a real threat to the growth of your nest egg, which is one reason why it's never too early to start working with a professional on the design of your retirement plan.

14. **Employment Continuity**: With the dawn of the 401(k) and the end of the traditional defined-benefit pension plans, employee loyalty also took a nose dive. Workers today stay at their job for an average of 4.4 years and future generations are showing a propensity for even less loyalty.* While the reasons for this are not always bad, we are seeing more and more workers enter into retirement with a hodge-podge of investments, 401(k)s and stock options. When you work for multiple employers, you end up with multiple investments, which is why Chapter 1 starts with a review of what you have. Not only can those investments expose you to unhelpful market risk, the beneficiaries listed on these documents often do not reflect the current situation. Chapters 12 and 13 go into more detail about proper beneficiary designation and how to best structure IRAs for future generations.

15. **Family**: For anybody who is married or who has family members they care about, there are two risks to be aware of: the first risk is the death of a spouse. While this is a decidedly unpleasant topic, the reality is that it happens to nearly every retired couple, whether they want it to happen or not. The Social Security Administration reports that

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* *http://www.forbes.com/sites/jeannemeister/2012/08/14/job-hopping-is-the-new-normal-for-millennials-three-ways-to-prevent-a-human-resource-nightmare/*

poverty among women after the loss of a spouse continues to rise as many people fail to prepare.* Spousal continuation is the part of planning that looks at how the income picture would change should one spouse pass away, and it is one of the most overlooked risks in retirement.

The second risk has to do with unexpected financial responsibility that comes from taking care of family members. For some, it's helping to take care of mom and dad as they face the challenges of aging; for others, wanting to help the kids or grandkids get through college or difficult situations such as divorce or job loss. If you have more than one child, this cost can really add up, especially when it's combined with the cost of helping out mom and dad. This has become so prevalent among today's Boomers, the term ***Sandwich Generation*** was coined as many retirees feel the pressure of being caught between both of these important caregiver "roles."

16. **Working while claiming Social Security**: While working during retirement is often desirable, for most people, working while claiming their Social Security benefit might not be a good idea. Unless you have health considerations or are really in a financial pinch, it doesn't make sense to pay the $1 penalty for every $2 you earn. This penalty is assessed when your annual earnings exceed the relatively low threshold of $15,720 as of 2015.** Social Security is a benefit you've paid into your entire life, which is why you don't want lack of knowledge to short-change you. Chapter 4, Maximizing Social Security, takes you through

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** http://www.ssa.gov/policy/docs/ssb/v65n3/v65n3p31.html*

***https://faq.ssa.gov/link/portal/34011/34019/Article/3739/What-happens-if-I-work-and-get-Social-Security-retirement-benefits* the basics of what you need to know before claiming the important lifelong benefit.

RISKS THAT HAVE NOTHING TO DO WITH YOU

This last category speaks yet again to the need for wisdom when working out a comprehensive retirement plan. You might have a nice fat 401(k) and plenty of money in the bank, but if you retire during the wrong year without a plan, then all your hard work has the potential to go out the window. After a lifetime of hard work and diligent saving, why would you want to leave the future of your retirement income up to chance? Wise stewardship dictates that you plan for or remove as many of these risks as you possibly can, which is why we need to look at these final two risks: timing risk and policy risk.

17. **Timing Risk**: Whether the market is high or low on the day you retire, and during the years just after your retirement, is out of your control; yet it can have a huge impact on the comfort of your retirement years. Consider the investor who retired in 2007 and then saw his portfolio drop by 40 percent versus the retiree who retired in the year 2010. You don't have to leave your savings vulnerable to timing risk. Chapter 7 takes a look at your options for managed money during retirement as one way to mitigate risk while still pursuing a growth strategy.

18. **Public Policy Risk**: This is the risk to your plan that occurs when politicians change the game. One example that can affect your bottom line during retirement has to do with how the withdrawals from your IRA account are taxed. The rules for traditional IRAs and Roth IRAs are different. With traditional IRAs, you are taxed at ordinary income levels when withdrawing this money during retirement. The thought process here is that at this time,

most retirees will be in a lower tax bracket than they were during their working years. But what happens when the government changes the tax brackets? There is the risk of being taxed at a much higher rate than anticipated. Another example of policy change can be seen in the way Social Security is currently taxed. Originally, it was set up to be an untaxable source of income during retirement. The taxation of Social Security has been changed more than once in order to help fund the program, and there is no way of knowing what changes will be enacted next.

TWO HEADS ARE BETTER THAN ONE

Wealth and Retirement Strategies, Inc. proudly serves the hard working citizens of Knoxville, Tennessee and surrounding communities. We take the job of being financial stewards to heart and we extend that invitation to you. Retirement is perhaps the most important time in your life to utilize wise financial management. We've found that the principles of wise stewardship outlined in this book can provide the core foundation of a retirement plan that puts your dollars to work for you so you can have the retirement you deserve.

We realize that the risks facing today's retirees are often overwhelming, which is why we use the team approach for every plan that we design to offer you the following services:

- Income Maximization
- IRA/401(k) rollovers
- Asset protection
- Income planning
- Wealth management
- Social Security Maximization
- Long-term care solutions
- Tax-Reduction Strategies
- Life Insurance Planning

- Estate planning
- Wealth transfer strategies

We want you to have a stress-free retirement with a guaranteed paycheck hitting your mailbox every month for the rest of your life, and to achieve that, we have found that two heads on a problem are better than one. If you would like greater protection from risk and the opportunity for a higher income than you thought possible, we invite you to give us a call. Using our heads, our hearts and over 36 cumulative years of industry experience, we look forward to helping you manage your retirement using the sound principles of wise stewardship.

– Steve Vasgaard, President and Founder
– Patrick Carmichael, Managing Partner