REAL LIFE CHALLENGES:

Resetting Your Retirement

PEASON FINANCIAL GROUP

A Retirement Income Store®

Traditionally, the key to a financially solid retirement plan has been to save early – from the day you start working. It's always been good advice to live by, but today's retirement is more complex. It requires a different approach.

It wasn't always this complicated. There was a time – in the not-so-distant past – that you worked 30 years for the same employer. When it came time to retire, you had a pension and Social Security to fund your encore years. Now, most of us are facing challenges that are making it harder to achieve a more comfortable retirement lifestyle. Living longer, carrying more debt, family dynamics and healthcare weigh heavily on us. Market volatility and the fallout from the pandemic have only exacerbated the situation.

The information in this guide can help you better understand this new reality. In it, you will find solutions that may assist you in offsetting lower-than-expected income sources, create a stream of renewable income, and guard against market volatility.

Retirement Building Blocks

Planning for retirement is a personal journey, one that means more than deciding where you'll live, how you'll spend your time, or buying an RV and becoming a road warrior. Retirement can be the most rewarding and exciting phase of your life, but to make the most of it, you'll need an ongoing stream of reliable income.

Retirement just requires a slight change of thinking if your primary purpose-based goal is income now or later. The income you generate from your principal is your usable wealth. Your principal — the money you actually use to generate your income — is your unusable wealth.

Those who retired in the last few years are depending more and more on their investments to fulfill basic needs. Without the proper income, many are utilizing the withdrawal method, and are lucky in that they haven't been doing it long enough to risk running out of money yet. The problem is that the more money you withdraw, the less income you can generate, and the less money you'll have when you actually need it.

TO ILLUSTRATE:

Option A

Receive company stock. Of course, Joe cannot sell it right away because it's restricted stock. However, he can collect a 2% dividend on it each and every year. That's $20,000 in income.

Option B

A defined benefit pension where Joe's company pays him $60,000 a year for the rest of his life. Joe doesn't get any stock, but he will get $60,000 a year for the rest of his life.

Knowing that, which option would you take?

It's hard to turn down $1 million, but until he can sell that stock, that money really isn't Joe's; it's restricted. Joe couldn't even list it as an asset if he were to go to the bank and get a loan.

Sure, Joe will get $20,000 in income, but in some respect that's the best he will get with Option A. Essentially, the $1 million lump sum is unusable because if Joe were to spend it, he'd lose his income. With Option B, Joe will get $60,000 a year no matter what; the entire $60,000 is usable year after year.

Retirement Lifestyle

Picture your ideal retirement and what do you see? Are you maintaining the same standard of living you have now, or will you be content living with a thinner budget? Are you open to working part-time?

These are just a few of the questions to ask yourself as you consider which retirement income sources can help you live the future you envision.

When considering your retirement income options, one thing to keep in mind is how long you expect to be retired. In general, people are living longer than in the past. If you retire at age 65, you could have 20 or even 30 years ahead of you. That's a long time to go without reliable income. At the end of the day, investing for income can be a more conservative way to get a return on your investment.

How much will you need?

Moving forward without a financial strategy invites disaster. To avoid all that, you need a plan. Estimating your retirement budget can give you insight into how much money you may need to fund your retirement.

There are three categories of expenses you'll need to consider:

1. **Fixed Expenses**

   Mortgages, car payments, insurance premiums, and other fixed payment loans. These are predictable expenses and won't change over time or be affected by inflation.

2. **Variable Expenses**

   Healthcare, groceries, utilities and other costs that are likely to fluctuate over time. These expenses are somewhat unpredictable, as they are subject to change.

3. **Discretionary Expenses**

   Travel, hobbies, or dining out may be some of the things you would like to have funds available for. Typically, the amount allocated in this category will be whatever is left over after paying fixed and variable expenses.

We've provided a worksheet for you to build your own estimated retirement budget. It includes living expenses common for most people. Remember, this will simply be an estimate to help you plan for your retirement expenses.

HOUSING	
Item	**Monthly Expense**
Mortgage/Rent	
Maintenance/Repairs	
Utilities	
Homeowner's Insurance	
Other	
Total	

TRANSPORTATION	
Item	**Monthly Expense**
Car Payment	
Insurance	
Maintenance	
Gas	
Other	
Total	

MEDICAL EXPENSES	
Item	**Monthly Expense**
Medical Services/ Co-pays	
Medications	
Insurance	
Dental	
Other	
Total	

TAXES	
Item	**Monthly Expense**
Real Estate Taxes	
Personal Taxes	
Other	
Total	

PERSONAL	
Item	**Monthly Expense**
Grooming/ Personal Care	
Clothing	
Hobbies	
Dining Out	
Vacation	
Adult Care	
Alimony	
Memberships	
Other	
Total	

LIVING EXPENSES	
Item	**Monthly Expense**
Groceries	
Phone/Cable/ Internet	
Other	
Total	

INSURANCE	
Item	**Monthly Expense**
Life Insurance	
Supplemental Health	
Long Term Care	
Other	
Total	

MONTHLY TOTAL	

How Will You Fund Your Monthly Expenses?

Many people tend to believe that financial preparations for retirement are simply to build up a savings account large enough to last through their golden years. What they neglect to consider is how long their retirement will last and subsequently, what happens if they run out of their savings?

There are several potential sources of income to choose from, which all carry distinct benefits and risks. Some are related to the stock market and may provide the potential for significant growth, though they may also come with significant risk. In contrast, other sources provide fixed, dependable income for a guaranteed period of time. These sources will not offer significant growth opportunities, and instead will provide stability from market fluctuations.

TO ILLUSTRATE:

What happens if the market drops?

Obviously, Ana's supplemental income needs to come from somewhere. That puts her in the unfortunate situation where she will need to sell more shares of stock or mutual funds.

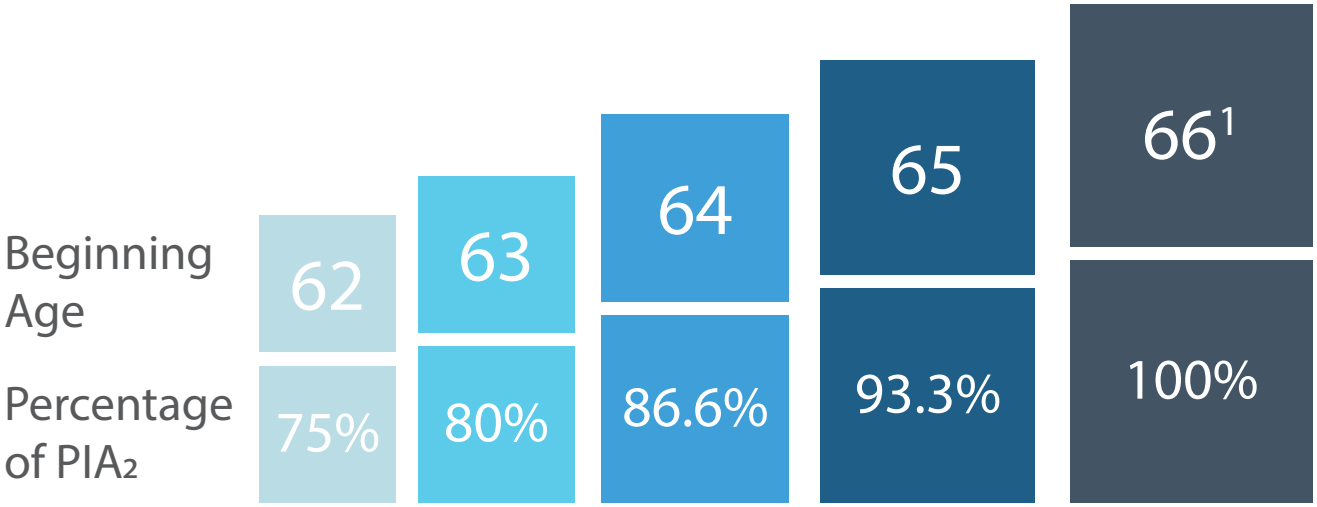
That's called "reverse dollar-cost averaging" and it's one of the most dangerous strategies there is. By employing this strategy, Ana's money depletes at a rapid rate. Over time, she will end up in a position where she cannibalizes her portfolio – leaving her with less money to draw from later on. Life is filled with zero-sum-game examples where things may work great in one direction but not in the other.

Potential Income Sources

It's all about you – your financial situation, retirement goals, and risk tolerance. Below you will find information that is intended as a general overview. For more information about each source of income and how relevant they are to your specific needs, consider consulting with an Income Specialist.

Social Security

A considerable number of people claim their Social Security benefits at age 62. However, if you can wait, you will receive a larger benefit. Of course, deciding when to draw Social Security benefits will likely be based on your health, how long you plan on working, and your assets.



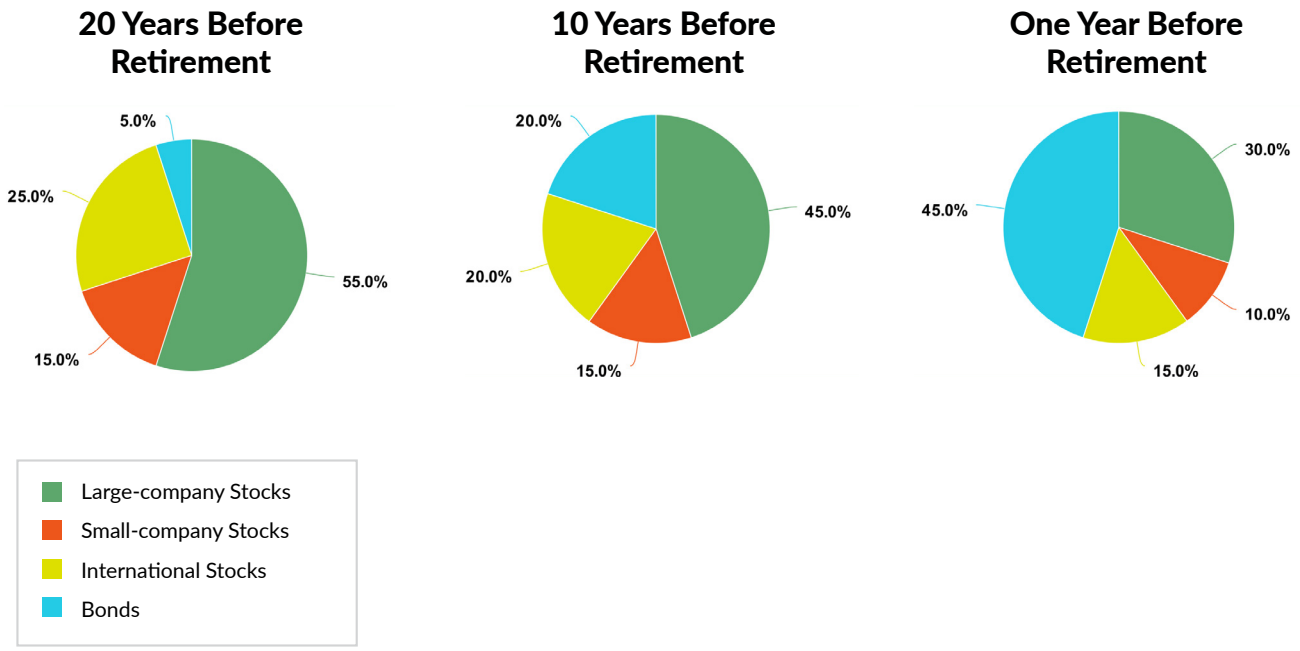
1. Represents Full Retirement Age (FRA) based on DOB Jan. 1, 1995
2. PIA = The Primary Insurance Amount is the basis for benefits that are paid to an individual

Stocks and Bonds

Two of the most common investments used in financial planning are stocks and bonds. Traditionally, stocks provide higher yields and come with higher risk. In contrast, bonds earn interest through maturity, and are often less lucrative but more stable. As such, the Securities and Exchange Commission (SEC) notes that many people increase their ratio of bonds to stocks as they approach retirement.[1]

[1] http://www.sec.gov/investor/pubs/assetallocation.htm

Most stocks are extremely liquid. Additionally, most bonds issued from well-established sources such as state, government, and investor-grade bonds are also liquid. Stocks are considered a variable security, as their values rise and fall with the market. Bonds are typically a fixed-income security, meaning the interest rate doesn't change. You'll also know the exact value of the bond that the debtor will pay you at maturity. However, if you sell the bond before maturity, its value may be different, depending on the current interest rate environment.



Mutual Funds vs. Exchange Traded Funds

Mutual funds remain the dominant player in the investment world, thanks to their prominence in retirement plans. However, ETFs have been growing quickly in the last decade, as investors are drawn to their low fees and ease of trading. Some funds engage in what's called active management, in which the fund's manager picks what stocks to buy and sell. This approach is more typical for mutual funds. The other approach is called passive investing. Here the fund manager doesn't select the investments, but rather mimics an index like the S&P 500. This approach is more typical of ETFs, though ETFs may sometimes be actively managed.

Generally, passive investing does better most of the time. In fact, a 2018 report from S&P Dow Jones Indices shows more than 92% of active managers in large companies were unable to beat the market over a 15-year period.[1] In passive investing, the goal is looking to be the market, not beat it.

[1] https://www.prnewswire.com/news-releases/sp-dow-jones-indices-reports-record-58-4-billion-increase-in-us-dividend-payments-for-2018--300772464.html

	ETFs	Mutual Funds
If you prefer lower investment minimums	An ETF could be more suitable for you	A mutual fund may not be a suitable investment
If you want more hands-on control over the price of your trade	An ETF could be more suitable for you	A mutual fund may not be a suitable investment
If you're looking for an index fund	An ETF could be more suitable for you	A mutual fund could be a suitable investment
If you want to repeat specific transactions automatically	An ETF wouldn't be a suitable investment	A mutual fund could be a suitable investment

401(k)s and Defined Benefit Pensions

Both are typical retirement plans sponsored by an employer. Defined benefit pensions are plans that provide income from a guaranteed source funded and paid for by the employer during retirement. Today, they are extremely rare. Instead, many companies offer a 401(k), a defined contribution plan that allows employees to invest a portion of every paycheck into a retirement fund, with employers often matching contributions up to a certain amount.

IRAs

Individual Retirement Accounts (IRAs) are like 401(k)s in that they may allow you to contribute a certain amount of income and defer taxation on it. Many types of IRAs are available; the most common are traditional IRAs and Roth IRAs. The traditional IRA account defers taxes until you withdraw funds, while the Roth IRA is already taxed income and you won't pay taxes when its withdrawn, assuming you have held it for five years.

Annuities

An annuity is a type of contract with an insurance company that can provide income in exchange for an initial lump sum or fixed series of payments. They come in a variety of options – fixed, variable, and indexed. They also come with different terms, conditions, and payouts. Before placing money in any annuity, make sure you review all terms of the contract so you can fully understand the features, benefits, limitations, and fees associated with it.

Portfolio Allocation

Unique to each investor, there is no one-size-fits-all strategy for retirement income planning. Each option has its own benefits and risks, and some can be complex. On some level, most people understand they're supposed to de-risk as they age. The option(s) that you choose will be correlated to your risk tolerance.

For people at or near retirement, a dependable income source with a consistent, steady payout is preferable to a high-risk investment with the possibility of a higher return. Reallocating a portion of your investment dollars to the world of bonds and other bond-like instruments to continue generating a steady income stream seems like a sensible approach.

You don't have to choose just one type of retirement income. Many people reset their portfolios to include both guaranteed (by a government or insurance company) and non-guaranteed sources of income, which together forms the foundation for years to come. No two people are alike, and neither are their retirement portfolios.

Other Considerations

Life doesn't always go according to plan, and retirement planning is the same way. In addition to your anticipated total monthly costs, there are other factors to consider.

Inflation

Prices fluctuate, and things get more expensive as the years go by. That's today's unfortunate economic reality. As an example, let's say you have $100 in your pocket today. Assuming a modest 3% inflation rate, that same $100 will be worth approximately $64 dollars in 2035. In summary, over time, inflation erodes the value of money.

Healthcare Costs

The biggest concern for retirees that almost always makes retirement more expensive than they ever could imagine is healthcare.

Healthcare costs are subject to some of the greatest inflation rates in the country. The only other things that come close are college tuition and childcare. In the last 18 years, inflation has grown at an average annual rate of 2.2%.[1] Since 1948, the price of medical care has grown at an average annual rate of 5.3% compared to 3.5% for the consumer price index overall.[2] So, at close to 6%, healthcare and medical costs are essentially doubling every 12 years.

[1] https://www.usinflationcalculator.com/inflation/current- inflation-rates/

[2] https://fredblog.stlouisfed.org/2017/07/healthy-inflation/

Longevity

With advances in medical care, people are living longer. Today, the Society of Actuaries says that the average man at 65 can expect to live another 21.5 years, and the average woman another 23 years.[1] If you have family members living longer than that, plan for the change that your retirement savings will need to stretch 30 years or more.

Long-Term Care

Long-term care involves a variety of services designed to meet a person's health or personal care needs. It can be in the form of independent or assisted living. It is difficult to predict how much or what type of long-term care a person might need. Factors that influence care include age, gender, marital status, lifestyle, and health history.

Preparing for the Unexpected

Although not all unexpected events are negative, the big ones that affect your financial future tend to be. To combat unexpected financial hardship, you will need to better handle your money. Your emergency fund should be relatively liquid and cover three to six months of living expenses.

Disability, long-term illness, the death of a spouse and the special needs of children or aging parents are the kind of personal life events that can affect your financial security and well-being. Your plans should include contingencies in the event of job loss, reduction of retiree benefits, or changes to Social Security and Medicare.

Working After Retirement

Being retired doesn't mean that you have to stop working. You may find satisfaction in having a job that really suits your interest, regardless of salary. Continuing to work can also help you stay active and connected.

A 2013 study conducted by Northwestern Mutual found Americans simply planned to continue working into their 60s, 70s, and even 80s.[2] Many people assume they must begin taking Social Security as soon as they retire. However, the longer you wait, the more each payment might be. If you're healthy and don't need the income right away, it may be wise to delay as long as you can up to the age of 70.

[1] http://www.wsj.com/articles/rising-u-s-lifespans-spell-likely-pain-for-pension-funds-1414430683

[2] "Retirement and Longevity," Northwestern Mutual, 2013 [https://www.northwesternmutual.com/about-us /studies/planning-and-progress-2013-study]

The Rise of Boomerang Kids

Whether it's due to student loan debt, a less-than-successful job hunt, or economic conditions, 20- and 30-somethings are moving back in with their parents at a historic rate.

Baby Boomers who are still financially supporting their children, a group called boomerang kids, are increasingly finding out that doing so is keeping them from reaching retirement. In fact, only 21% of Baby Boomers who support their adult children are retired – compared with 52% of Boomer households whose adult children are financially independent.[1]

Not only is this impacting when Boomers are retiring, but also how much they can save beforehand.

Summary

You worked hard for the money you've saved and you should be able to spend it on your terms. Retirement is something to be enjoyed, and the way you do that is by having your money work for you. However, in a 2010 study, 47% of the study's participants were afraid of not being able to cover their basic living expenses.[2]

The reality is that you may no longer be able to rely, measure, or plan your retirement based on what you thought was supposed to happen. Remember, the money you have saved and invested for retirement should be working for you until you withdraw it. Your retirement should include a continual investment strategy throughout your lifetime.

When we're young, we have grandiose ideas of taking on the world and pursuing our passions. After decades of work, all we wish is to be able to fulfill purpose-based goals that are important to us, retire someday, make sure we will never run out of money, keep up with inflation, and, for some, to leave a modest legacy. Your investment strategy should obviously follow suit. It should have a specific and defined purpose, and smart investors are, indeed, purpose-based investors.

The bottom line is that you don't retire to skimp and save; you retire to enjoy it. To do that, you need a plan. More specifically, you need income.

[1] https://web.archive.org/web/20150316163438/http:/heartsandwallets.com/baby-boomers-whove-cut-apron-strings-for-adult-kids-twice-as-likely-to-be-retired-than-ones-who-havent/news/2015/03/

[2] "Reclaiming the Future" by Allianz Life Insurance Company, 2010, ENT-991-N [https://www2.allianzlife.com/content/public/literature/ documents/ent-991-N.pdf]

THE RETIREMENT INCOME STORE

The Retirement Income Store, LLC is made up of a national network of Income Specialists with a common goal of helping pre-retirees and retirees reduce their exposure to stock market risk, so they can use their retirement savings to help establish ongoing streams of income for retirement. Our Income Specialists are not just fiduciaries; they understand both pre-retiree and retiree investment needs. They provide guidance and take comfort in knowing that our income-based strategies help better protect clients from market turmoil.

The Retirement Income Store can be found in many states across the country. Collectively, its network of Income Specialists has hundreds of years' experience creating tailored portfolios that address the unique needs of their clients.

WHO WE SERVE

After the Stock Market dropped by nearly 50% during the Dot Com bubble in 2000-2003, and then again by nearly 60% during the Great Recession from 2007-2009, many investors realized they needed a new approach to saving and investing for retirement. More recently, the markets' volatility and decline of over 20% has forced many of us to rethink and reset our retirement strategies.

Unfortunately, despite these dramatic drops, many financial advisors and stockbrokers are still advocating old stock market-based investment strategies, or they take the easy way out and invest their clients' hard-earned money in bond funds.

Investing in individual fixed-income securities was merely an afterthought for most advisors because they lacked the specialized training required to effectively implement and manage individual fixed-income strategies.

With that in mind, we work with all clients to help make sure they have the best possible investment strategies that are tailored to meet their goals – placing a priority on financial self-defense and generating ongoing streams of income for retirement.

PEASON
FINANCIAL GROUP
A Retirement Income Store®

512 N Coalter Street, Staunton, VA 24401
Phone: 540.213.2126 | Fax: 540.213.2127 | Email: patrick@peasongroup.com | Website: www.peasongroup.com

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