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How the Sequence of Portfolio Returns Could Impact Your Retirement (https://mahopacmoney.com/2019/05/29/how-the-sequence-of-portfolio-returns-could-impact-your-retirement/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Investing (https://mahopacmoney.com/category/investing/), Retirement (https://mahopacmoney.com/category/retirement/) · No Comments (https://mahopacmoney.com/2019/05/29/how-the-sequence-of-portfolio-returns-could-impact-your-retirement/#respond)

A look at how variable rates of return do (and do not) impact investors over time.

What exactly is the "sequence of returns"?

The phrase simply describes the yearly variation in an investment portfolio's rate of return. Across 20 or 30 years of saving and investing for the future, what kind of impact do these deviations from the average return have on a portfolio's final value?

The answer: no impact at all.

Once an investor retires, however, these ups and downs can have a major effect on portfolio value – and retirement income.

During the accumulation phase, the sequence of returns is ultimately inconsequential.

Yearly returns may vary greatly or minimally; in the end, the variance from the mean hardly matters. (Think of "the end" as the moment the investor retires: the time when the emphasis on accumulating assets gives way to the need to withdraw assets.)

An analysis from BlackRock bears this out. The asset manager compares three model investing scenarios: three investors start portfolios with lump sums of $1 million, and each of the three portfolios averages a 7% annual return across 25 years. In two of these scenarios, annual returns vary from -7% to +22%. In the third scenario, the return is simply 7% every year. In all three scenarios, each investor accumulates $5,434,372 after 25 years – because the average annual return is 7% in each case. (1)

Here is another way to look at it.

The average annual return of your portfolio is dynamic; it changes, year-to-year. You have no idea what the average annual return of your portfolio will be when "it is all said and done," just like a baseball player has no idea what his lifetime batting average will be four seasons into a 13-year playing career. As you save and invest, the sequence of annual portfolio returns influences your average yearly return, but the deviations from the mean will not impact the portfolio's final value. It will be what it will be. (1)

When you shift from asset accumulation to asset distribution, the story changes.

You must try to protect your invested assets against sequence of returns risk.

This is the risk of your retirement coinciding with a bear market (or something close).

Even if your portfolio performs well across the duration of your retirement, a bad year or two at the beginning could heighten concerns about outliving your money.

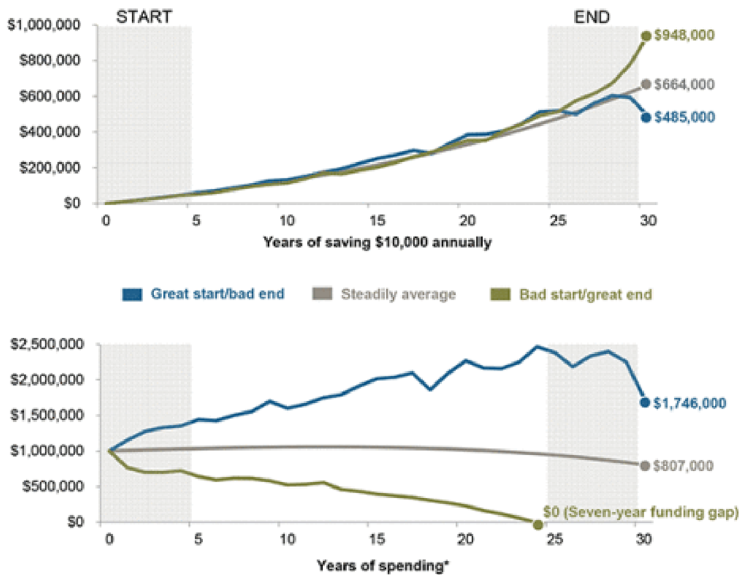
For a classic illustration of the damage done by sequence of returns risk, consider the awful 2007-2009 bear market. Picture a couple at the start of 2008 with a $1 million portfolio, held 60% in equities and 40% in fixed-income investments. They arrange to retire at the end of the year. This will prove a costly decision. The bond market (in shorthand, the S&P U.S. Aggregate Bond Index) gains 5.7% in 2008, but the stock market (in shorthand, the S&P 500) dives 37.0%. As a result, their $1 million portfolio declines to $800,800 in just one year. (2)

If you are about to retire, do not dismiss this risk.

If you are far from retirement, keep saving and investing knowing that the sequence of returns will have its greatest implications as you make your retirement transition.

Sequence of return risk – saving for and spending in retirement | 40

Portfolio values assuming various return sequence scenarios



THE GREATEST RISK IS WHEN WEALTH IS GREATEST

When saving for retirement, the return experienced in the early years has little affect compared to growth achieved through regular savings. However, the rates of return just before and after retirement – when wealth is greatest – can have a significant impact on retirement outcomes.

Investing

For return sequence scenarios, see page 39. Hypothetical return scenarios are for illustrative purposes only and are not meant to represent an actual asset allocation. *Spending in retirement chart assumes an initial $1,000,000 and a 4% withdrawal adjusted annually for inflation of 2%.

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J.P.Morgan
Asset Management

▲ Sequence of return risk – saving for and spending in retirement (https://am.jpmorgan.com/us/en/asset-management/gim/protected/adv/insights/guide-to-retirement)

Poor returns have the biggest impact on outcomes when wealth is greatest. Using the three sequence of return scenarios – Great start/bad end in blue, steadily average in grey and bad start/great end in green – this chart shows outcomes assuming someone is saving for retirement in the top chart and spending in retirement in the bottom chart.

- **The top chart** assumes that someone starts with $0 and begins saving $10,000 per year. In the early years of saving, the return experience makes very little difference across sequence of return scenarios. The most powerful impact to the portfolio's value is the savings behavior. However, the sequence of return experienced at the end of the savings timeframe when wealth is greatest produces very different outcomes.
- **The bottom chart** shows the impact of withdrawals from a portfolio to fund a retirement lifestyle. If returns are poor early in retirement, the portfolio is what we call 'ravaged' because more shares are sold at lower prices thereby exacerbating the poor returns that the portfolio is experiencing. This results in the portfolio being depleted in 23 years – or 7 years before the 30 year planning horizon. If,

instead, a great start occurs the beginning of retirement and the same spending is assumed, the portfolio value is estimated to be $1.7M after 30 years.

The key takeaway to understand is how important it is to have the right level of risk prior to as well as just after retirement because that is when you may have the most wealth at risk. You should consider to mitigate sequence of return risk through diversification, investments that use options strategies for defensive purposes or annuities that offer principal protection or protected income.

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Don’t Let Emotions Influence Your Investment Decisions (https://mahopacmoney.com/2019/05/21/dont

-let-emotions-influence-your-investment-decisions/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Investing (https://mahopacmoney.com/category/investing/) · No Comments (https://mahopacmoney.com/2019/05/21/dont-let-emotions-influence-your-investment-decisions/#respond)

PHOTO BY NATHAN COWLEY ON PEXELS.COM (HTTPS://WWW.PEXELS.COM/PHOTO/MAN-IN-BLUE-AND-BROWN-PLAID-DRESS-SHIRT-TOUCHING-HIS-HAIR-897817/)

Are your choices based on evidence or emotion?

Information vs. instinct.

When it comes to investing, many people believe they have a “knack” for choosing good investments. But what exactly is that “knack” based on? The fact is, the choices we make with our assets can be strongly influenced by factors, many of them emotional, that we may not even be aware of.

Deal du jour.

You've heard the whispers, the "next greatest thing" is out there, and you can get on board, but only if you hurry. Sound familiar? The prospect of being on the ground floor of the next big thing can be thrilling. But while there really are great new opportunities out there once in a while, those "hot new investments" can often go south quickly. Jumping on board without all the information can be a bit like gambling in Vegas: the payoff could be huge, but so could the loss. A shrewd investor will turn away from spur-of-the-moment trends and seek out solid, proven investments with consistent returns.

Risky business.

Many people claim not to be risk-takers, but that isn't always the case. Most proficient investors aren't reluctant to take a risk, they're reluctant to accept a loss. Yes, there's a difference. The first step is to establish what constitutes an acceptable risk by determining what you're willing to lose. The second step is to always bear in mind the final outcome. If taking a risk could help you retire five years sooner, would you take it? What if the loss involved working an extra ten years before retiring; is it still a good risk? By weighing both the potential gain and the potential loss, while keeping your final goals in mind, you can more wisely assess what constitutes an acceptable risk.

You can't always know what's coming.

Some investors attempt to predict the future based on the past. As we all know, just because a stock rose yesterday, that doesn't mean it will rise again today. We know this, but often we "shrug off" this knowledge in favor of hunches. Instead of stock picking, you can exercise a little caution and seek out investments with the potential for consistent returns.

The gut-driven investor.

Some investors tend to pull out of investments the moment they lose money, then invest again once they feel "driven" to do so. While they may do some research, they are ultimately acting on impulse. This method of investing may result in huge losses.

Eliminating emotion.

Many investors "stir up" their investments when major events happen, including births, marriages, or deaths. They seem to get a renewed interest in their stocks and/or begin to second-guess the effectiveness of their long-term plans. It's a case of action-reaction: they invest in response to short-term needs instead of their long-term financial goals. The more often this happens, the more incoherent their so-called "financial strategy" becomes. If the financial changes they make are really dramatic, it can lead to

catastrophe. Many times, there is no need to fix what isn't broken or turn away from what they've done right. By enlisting the assistance of a qualified financial professional (and relying on their skill and expertise), you can be sure that investment decisions are based on facts and made to suit your long-term objectives rather than your personal, changing emotions or short-term needs.

Risk Tolerance Investing - The Right Portfolio for You

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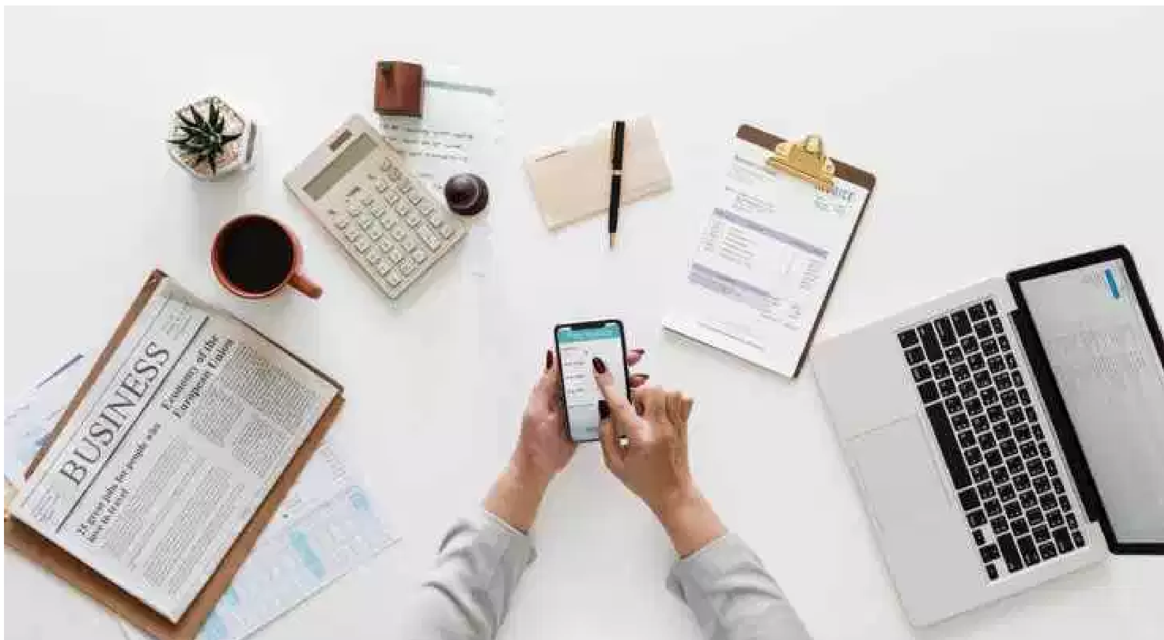
Should You Take Your Pension as a Lump Sum or Monthly Lifetime Payments? (https://mahopacmoney.com/2019/05/08/should-you-take-your-pension-as-a-lump-sum-or-monthly-lifetime-payments/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Retirement (https://mahopacmoney.com/category/retirement/) · No Comments (https://mahopacmoney.com/2019/05/08/should-you-take-your-pension-as-a-lump-sum-or-monthly-lifetime-payments/#respond)



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Corporations are transferring pension liabilities to third parties. Where does this leave retirees?

A new term has made its way into today's financial jargon: de-risking.

Anyone with assets in an old-school pension plan should know what it signifies.

De-risking is when a large employer hands over its established pension liabilities to a third party (typically, a major insurer). By doing this, the employer takes a sizable financial obligation off its hands. Companies that opt for de-risking usually ask pension plan participants if they want their pension money all at once rather than incrementally in an ongoing income stream.

The de-risking trend began in 2012.

In that year, Ford Motor Co. and General Motors gave their retirees and ex-employees a new option: they could take their pensions as lump sums rather than periodic payments. Other corporations took notice of this and began offering their pension plan participants the same choice. (1)

Three years later, the Department of the Treasury released guidance effectively prohibiting lump-sum offers to retirees already getting their pensions; lump-sum offers were still allowed for employees about to retire. In March 2019, though, the Department of the Treasury reversed course and issued a notice that permitted these offers to retirees again. (1)

So, whether you formerly worked or currently work for a company offering a pension plan, a lump-sum-versus-periodic-payments choice might be ahead for you.

This will not be an easy decision.

You will need to look at many variables first. Whatever choice you make will likely be irrevocable. (2)

What is the case for rejecting a lump-sum offer?

It can be expressed in three words: lifetime income stream. Do you really want to turn down scheduled pension payments that could go on for decades? You could certainly plan to create an income stream from the lump sum you receive, but if you are already in line for one, you may not want to make the extra effort.

You could spend 20, 30, or even 40 years in retirement. An income stream intended to last as long as you do sounds pretty nice, right? If you are risk averse and healthy, turning down decades of consistent income may have little appeal – especially, if you are single or your spouse or partner has little in the way of assets.

Also, maybe you just like the way things are going. You may not want the responsibility that goes with reinvesting a huge sum of money.

What is the case for taking a lump sum?

One line of reasoning has to do with time. If you are retiring with serious health issues, for example, you may want to claim more of your pension dollars now rather than later.

Or, it may be a matter of timing. If you need to boost your retirement savings, a lump sum may give you an immediate opportunity to do so.

Maybe you would like to invest your pension money now, so it can potentially grow and compound for more years before being distributed. (As a reminder, pension payments are seldom adjusted for inflation.) Maybe your spouse gets significant pension income, or you are so affluent that pension income would be nice, but not necessary; if so, perhaps you want a lump-sum payout to help you pursue a financial goal. Maybe you think a pension income stream would put you in a higher tax bracket. (2)

If you take a lump sum, ideally, you take it in a way that minimizes your tax exposure. Suppose your employer just writes you a check for the amount of the lump sum (minus any amount withheld), and you direct that money into a taxable account. If you do that, you will owe income tax on the entire amount. Alternately, you could have the lump sum transferred into a tax-advantaged investment account, such as an IRA. That would give those invested assets the potential to grow, with income taxes deferred until withdrawals are made. (2)

Consult a financial professional about your options.

If you sense you should take the lump sum, a professional may be able to help you manage the money in recognition of your financial objectives, your risk tolerance, and your estate and income taxes.

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Could Social Security Really Go Away? (https://mahopacmoney.com/2019/05/01/could-social-security-really-go-away/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Retirement (https://mahopacmoney.com/category/retirement/), Social Security (https://mahopacmoney.com/category/social-security/) · No Comments (https://mahopacmoney.com/2019/05/01/could-social-security-really-go-away/#respond)

That may be unlikely, but the program does face financial challenges.

Will Social Security run out of money in the 2030s?

You may have heard warnings about this dire scenario coming true. These warnings, however, assume that no action will be taken to address Social Security's financial challenges between now and then.

It is true that Social Security is being strained by a gradual demographic shift.

The Census Bureau says that in 2035, America will have more senior citizens than children for the first time. In that year, 21% of us will be age 65 or older. (1)

As this shift occurs, the ratio of workers to retirees is also changing.

There were three working adults for every Social Security recipient in 1995. The ratio is projected to be 2.2 to 1 in 2035. (2)

Since Social Security is largely funded with payroll taxes, this presents a major dilemma.

Social Security may soon pay out more money than it takes in.

That has not happened since 1982. This could become a "new normal" given the above-mentioned population and labor force changes. (3)

When you read a sentence stating, "Social Security could run out of money by 2035," it is really referring to the potential depletion of the Social Security Administration's Old Age, Survivors, and Disability Insurance (OASDI) trust funds – the twin trust funds from which monthly retiree and disability payments are disbursed. Should Social Security's net cash outflow continue unchecked, these trust funds may actually be exhausted around that time. (4)

Social Security is currently authorized to pay full benefits to retirees through the mid-2030s. If its shortfall continues, it will have to ask Congress for greater spending authority in order to sustain benefit payments to meet retiree expectations. (4)

What if Congress fails to address Social Security's cash flow problem?

If no action is taken, Social Security could elect to reduce retirement benefits at some point in the future. Its board of trustees notes one option in its latest annual report: benefits could be cut by 21%. That could help payouts continue steadily through 2092. (2)

No one wants to see benefits cut, so what might Congress do to address the crisis?

A few ideas have emerged.

1. **Expose all wages to the Social Security tax or increase it at certain levels.** Right now, the Social Security tax only applies to income below $132,900. Lifting this wage cap on the tax or boosting the tax above a particular income threshold would bring Social Security more revenue, specifically from higher-earning Americans. (5)
2. **Raise Social Security's full retirement age (FRA).** This is the age when people become eligible to receive unreduced retirement benefits. The Social Security reforms passed in 1983 have gradually increased the FRA from 65 to 67.5
3. **Calculate COLAs differently.** Social Security could figure its cost-of-living adjustments (COLAs) using the "chained" version of the Consumer Price Index, which some economists believe more accurately measures inflation than the standard CPI. Its COLAs could be smaller as a result. (5)

Social Security could be restructured in the coming decades.

Significant reforms may or may not fix its revenue problem. In the future, Social Security might not be able to offer retirees exactly what it does now, and with that in mind, you might want to reevaluate your potential sources of retirement income today.

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The Power of Consistent Saving and Compound Interest (https://mahopacmoney.com/2019/04/28/the-power-of-consistent-saving-and-compound-interest/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Financial Planning (https://mahopacmoney.com/category/financial-planning/), Personal Finance (https://mahopacmoney.com/category/personal-finance/) · One Comment (https://mahopacmoney.com/2019/04/28/the-power-of-consistent-saving-and-compound-interest/#comments)

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Everyone is told to save for retirement early. Everyone is told to save consistently. You may wonder: just what kind of difference might an early start and ongoing account contributions make?

Let's take a look some eye-opening numbers

(You can verify these numbers simply by using the compound interest calculator at investor.gov (https://www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator), the Securities and Exchange Commission's website).

Scenario #1

If you are 30 years old and contribute **$200** a month to a tax-deferred retirement account (initial investment of **$200**, then **$200** per month thereafter), you will have **$333,903.82** by age **65**, if that account consistently returns **7%** a year. (This is with annual compounding.)

Scenario #2

If you change one variable in the above scenario – you start saving and investing at **25** years old instead of **30** – you will have **$482,119.16** by age **65**.

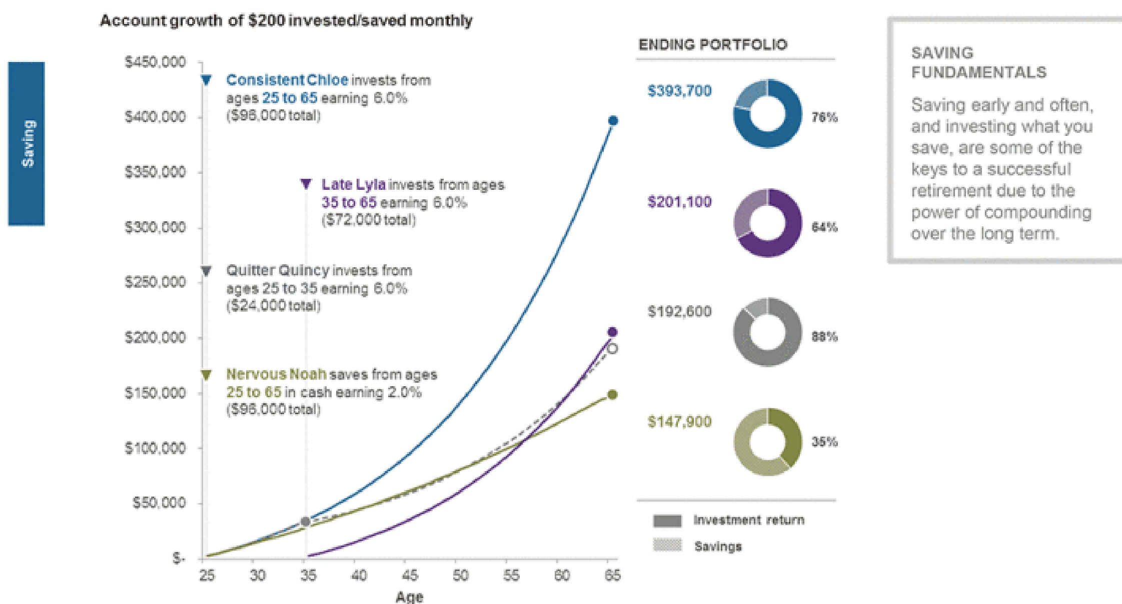
Scenario #3

Start at **20** years old and you will have **$689,998.84** by age **65**.

An early start really matters.

It gives you a few more years of compounding – and the larger the account balance, the greater difference compounding makes.

These are simple scenarios, but the impact of consistent saving and investing is undeniable. Over time, it may help you build a retirement account that could become a significant part of your retirement savings.



▲ Benefit of saving and investing early (https://am.jpmorgan.com/us/en/asset-management/gim/protected/adv/insights/guide-to-retirement)

Investors should make saving for retirement a priority by investing early and often. This graph illustrates the savings and investing behavior of four people who start saving the same annual amount at different times in their lives, for different durations and with different investment choices. Consistent Chloe saves and invests consistently over time and reaches 65 with more than double the amount of the other investors. Quitter Quincy starts early but stops after 10 years, just as Late Lyla starts saving. Despite saving one-third as much as Lyla, the power of long-term compounding on money invested early helps Quincy end up with almost the same wealth at retirement. Nervous Noah saves as much and as often as Chloe, but chooses not to invest his money so he accumulates less than half of Chloe's final amount.

Are you saving enough?

Annual savings needed if starting today

Household Income ≤$90k | 18

Saving

Start saving age	$30,000	$40,000	$50,000	$60,000	$70,000	$80,000	$90,000
	Savings rate (x current household income)						
25	7%	7%	7%	8%	9%	9%	10%
30	8%	9%	9%	10%	11%	12%	13%
35	11%	12%	12%	13%	15%	16%	17%
40	15%	16%	16%	17%	19%	21%	22%
45	21%	22%	23%	24%	27%	30%	31%
50	31%	32%	34%	36%	40%	44%	47%

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 $50,000 and $0 saved for retirement today may need to save 16% every year until retirement.**

Important things you need to know:

- Modest forward-looking returns may require higher savings going forward.
- Values assume you would like to maintain an equivalent lifestyle in retirement.
- Household income is assumed to be gross income (before tax and savings).

MODEL ASSUMPTIONS

Pre-retirement investment return: **6.0%**

Post-retirement investment return: **5.0%**

Inflation rate: **2.0%**

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

Years in retirement: **30**

This chart is for illustrative purposes only and must not be relied upon to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital market assumptions (10-15 years) and an 80% confidence level. Household income replacement rates are derived from an inflation-adjusted analysis of: Consumer Expenditure Survey (BLS) data (2013-2016); Social Security benefits using modified scaled earnings in 2019 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums. For more details, see slide 16.

Consult with a financial advisor for a more personalized assessment. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

J.P.Morgan Asset Management

Annual savings needed if starting today

Household Income ≥$100k | 19

Saving

Start saving age	$100,000	$125,000	$150,000	$175,000	$200,000	$250,000	$300,000
	Savings rate (x current household income)						
25	10%	11%	12%	13%	14%	15%	15%
30	13%	14%	16%	17%	18%	19%	20%
35	17%	19%	20%	22%	23%	25%	26%
40	23%	25%	27%	29%	31%	33%	35%
45	33%	35%	38%	41%	43%	46%	48%
50	48%	52%	57%	61%	64%	69%	72%

MODEL ASSUMPTIONS

Pre-retirement investment return: **6.0%**

Post-retirement investment return: **5.0%**

Inflation rate: **2.0%**

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

Years in retirement: **30**

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 may need to save 23% every year until retirement.

Important things you need to know:
- Modest forward-looking returns may require higher savings going forward.
- Values assume you would like to maintain an equivalent lifestyle in retirement.
- Household income is assumed to be gross income (before tax and savings).

This chart is for illustrative purposes only and must not be relied upon to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital market assumptions (10-15 years) and an 80% confidence level. Household income replacement rates are derived from an inflation-adjusted analysis of: Consumer Expenditure Survey (BLS) data (2013-2016); Social Security benefits using modified scaled earnings in 2019 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums. For more details, see slide 16.

Consult with a financial advisor for a more personalized assessment. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

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J.P.Morgan
Asset Management

▲ Annual savings needed if starting today (https://am.jpmorgan.com/us/en/asset-management/gim/protected/adv/insights/guide-to-retirement)

What is the rule of thumb for the percentage of your income you need to save for retirement? Some say 10%, some say higher or lower. The real answer is that it depends—on what you earn, the "lifestyle you become accustomed to" and when you start saving. This chart shows the percentage of gross income someone would need to start saving at the ages in the left column to be able to afford the typical lifestyle associated with the household income amounts in the top row. Starting at age 25, the annual savings required ranges from 7% to 10%: achievable, but well above what most Americans save. By contrast, someone thinking about waiting until age 50 to focus on retirement should see how unrealistic that may be, with required savings of between 31% and 47% of their gross income. The sooner investors start, the better chance they may have of steadily winning the retirement savings race.

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What's the Difference Between a Mutual Fund and an ETF? (https://mahopacmoney.com/2019/04/15/whats-the-difference-between-a-mutual-fund-and-an-etf/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Investing (https://mahopacmoney.com/category/investing/) · No Comments (https://mahopacmoney.com/2019/04/15/whats-the-difference-between-a-mutual-fund-and-an-etf/#respond)

An investment company creates a new company, into which it moves a block of shares to pursue a specific investment objective. For example, an investment company may move a block of shares to track performance of the Standard & Poor's 500. The investment company then sells shares in this new company. ETFs trade like stocks and are listed on stock exchanges and sold by broker-dealers.

Mutual Funds

Mutual funds, on the other hand, are not listed on stock exchanges and can be bought and sold through a variety of other channels — including financial advisors, brokerage firms, and directly from fund companies.

The price of an ETF is determined continuously throughout the day.

It fluctuates based on investor interest in the security, and may trade at a "premium" or a "discount" to the underlying assets that comprise the ETF. Most mutual funds are priced at the end of the trading day. So, no matter when you buy a share during the trading day, its price will be determined when most U.S. stock exchanges typically close.

Tax Differences.

There are tax differences as well. Since most mutual funds are allowed to trade securities, the fund may incur a capital gain or loss and generate dividend or interest income for its shareholders. With an ETF, you may only owe taxes on any capital gains when you sell the security. (An ETF also may distribute a capital gain if the makeup of the underlying assets is adjusted.)

Determining whether an ETF or a mutual fund is appropriate for your portfolio may require an in-depth knowledge of how both investments operate. In fact, you may benefit from including both investment tools in your portfolio.

Amounts in mutual funds and ETFs are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost.

At a glance.

Mutual funds and exchange-traded funds have similarities — and many differences. The lists below give a quick rundown.

Mutual funds:

- Bought and sold through many channels
- Not listed on stock exchanges.
- Priced to the end of the trading day.
- Capital gains within the funds distributed to shareholders.
- Dividends may be automatically reinvested.

Exchange-traded funds:

- Bought and sold through broker-dealers.
- Listed on stock exchanges.
- Price continuously determined during the trading day.
- Capital gains within the ETF reinvested, and the ETF may distribute a capital gain if the make-up of the underlying assets is adjusted.
- Dividends generally distributed to brokerage account.

Source

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Mutual funds and exchange-traded funds are sold only by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

The Standard & Poor's 500 Composite Index is an unmanaged index that is generally considered representative of the U.S. stock market. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index.

Retiring Within the Next 5 Years? Here Are 5 Things You Should Be Focusing On (https://mahopacmoney.com/2019/03/20/retiring-within-the-next-5-years-here-are-5-things-you-should-be-focusing-on/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Retirement (https://mahopacmoney.com/category/retirement/) · No Comments (https://mahopacmoney.com/2019/03/20/retiring-within-the-next-5-years-here-are-5-things-you-should-be-focusing-on/#respond)

PHOTO BY RAWPIXEL.COM ON PEXELS.COM (HTTPS://WWW.PEXELS.COM/PHOTO/MAN-AND-WOMAN-HOLDING-WINE-GLASSES-1418355/)

You can prepare for your retirement transition years before it occurs.

In doing so, you can do your best to avoid the kind of financial surprises that tend to upset an unsuspecting new retiree.

1. How much monthly income will you need?

Look at your monthly expenses and add them up. (Consider also the trips, adventures and pursuits you have in mind in the near term.) You may end up living on less; that may be acceptable, as your monthly expenses may decline. If your retirement income strategy was conceived a few years ago, revisit it to see if

it needs adjusting. As a test, you can even try living on your projected monthly income for 2-3 months prior to retiring.

2. Should you downsize or relocate?

Moving into a smaller home may reduce your monthly expenses. If you will still be paying off your home loan in retirement, realize that your monthly income might be lower as you do so.

3. How should your portfolio be constructed?

In planning for retirement, the top priority is to build investments; within retirement, the top priority is generating consistent, sufficient income. With that in mind, portfolio assets may be adjusted or reallocated with respect to time, risk tolerance, and goals: (https://mahopacmoney.com/2018/07/26/how-to-balance-portfolio-risk-and-reward-as-you-get-closer-to-retirement/) it may be wise to have some risk-averse investments that can provide income in the next few years as well as growth investments geared to income or savings objectives on the long-term horizon.

4. How will you live?

There are people who wrap up their careers without much idea of what their day-to-day life will be like once they retire. Some picture an endless Saturday. Others wonder if they will lose their sense of purpose (and self) away from work. Remember that retirement is a beginning. Ask yourself what you would like to begin doing. Think about how to structure your days to do it, and how your day-to-day life could change for the better with the gift of more free time.

5. How will you take care of yourself?

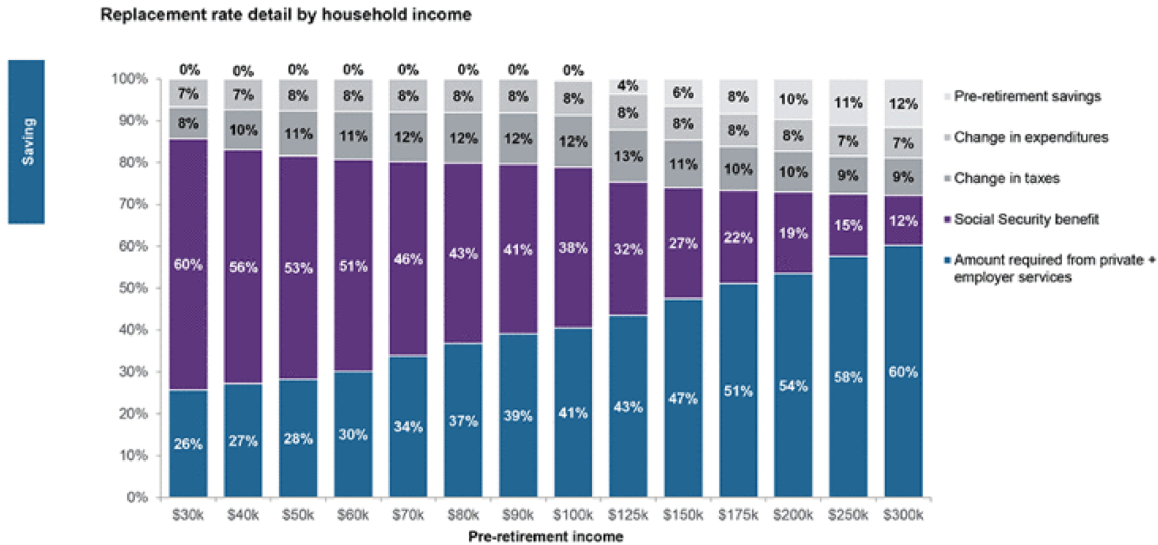
What kind of health insurance do you have right now? If you retire prior to age 65, Medicare will not be there for you. (https://mahopacmoney.com/2018/12/14/searching-for-health-coverage-in-the-years-before-medicare/) Check and see if your group health plan will extend certain benefits to you when you retire; it may or may not. If you can stay enrolled in it, great; if not, you may have to find new coverage at presumably higher premiums.

Even if you retire at 65 or later, Medicare (https://mahopacmoney.com/2018/07/03/why-medicare-should-be-part-of-your-retirement-planning/) is no panacea. Your out-of-pocket health care expenses could still be substantial with Medicare (https://mahopacmoney.com/2018/07/03/why-medicare-should-be-part-of-your-retirement-planning/) in place. Extended care is another consideration – if you think you (or your

spouse) will need it, should it be funded through existing assets or some form of LTC insurance? (https://mahopacmoney.com/2019/03/07/fact-vs-fiction-how-much-do-you-really-know-about-long-term-care/)

Give your retirement strategy a second look as the transition approaches.

Review it in the company of the financial professional who helped you create and refine it. An adjustment or two before retirement may be necessary due to life or financial events.



▲ Income replacement needs vary by household income (https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-retirement)

Income replacement needs in retirement vary by household income due to different levels of pre-retirement savings and changes in sp[1]ending and income taxes. Based on J.P. Morgan research, this chart shows the percentage of pre-retirement income that may be needed to provide a comparable lifestyle

through retirement. It also shows what percentage of that total income amount is estimated to come from Social Security to determine what amount will need to be covered by private sources, which include employer-provided retirement plans, IRAs, mutual funds, annuities and other investments.[1]

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1. https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-retirement (https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-retirement)

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Facts vs. Fiction: How Much Do You Really Know About Long-Term Care? (https://mahopacmoney.com/2019/03/07/fact-vs-fiction-how-much-do-you-really-know-about-long-term-care/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Insurance Planning (https://mahopacmoney.com/category/insurance-planning/) · One Comment (https://mahopacmoney.com/2019/03/07/fact-vs-fiction-how-much-do-you-really-know-about-long-term-care/#comments)

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Separating some eldercare facts from some eldercare myths.

How much does eldercare cost, and how do you arrange it when it is needed?

The average person might have difficulty answering those two questions, for the answers are not widely known. For clarification, here are some facts to dispel some myths.

True or false: Medicare will pay for your mom or dad's nursing home care.

FALSE, because Medicare is not long-term care insurance. (1)

Part A of Medicare will pay the bill for up to 20 days of skilled nursing facility care – but after that, you or your parents may have to pay some costs out-of-pocket. After 100 days, Medicare will not pay a penny of nursing home costs – it will all have to be paid out-of-pocket, unless the patient can somehow go without

skilled nursing care for 60 days or 30 days including a 3-day hospital stay. In those instances, Medicare's "clock" resets. (2)

True or false: a semi-private room in a nursing home costs about $35,000 a year.

FALSE. According to Genworth Financial's most recent Cost of Care Survey, the median cost is now $85,775. A semi-private room in an assisted living facility has a median annual cost of $45,000 annually. A home health aide? $49,192 yearly. Even if you just need someone to help mom or dad with eating, bathing, or getting dressed, the median hourly expense is not cheap: non-medical home aides, according to Genworth, run about $21 per hour, which at 10 hours a week means nearly $11,000 a year. (3,4)

True or false: about 40% of today's 65-year-olds will eventually need long-term care.

FALSE. The Department of Health and Human Services estimates that close to 70% will. About a third of 65-year-olds may never need such care, but one-fifth are projected to require it for more than five years. (5)

True or false: the earlier you buy long-term care insurance, the less expensive it is.

TRUE. As with life insurance, younger policyholders pay lower premiums. Premiums climb notably for those who wait until their mid-sixties to buy coverage. The American Association for Long-Term Care Insurance's 2018 price index notes that a 60-year-old couple will pay an average of $3,490 a year for a policy with an initial daily benefit of $150 for up to three years and a 90-day elimination period. A 65-year-old couple pays an average of $4,675 annually for the same coverage. This is a 34% difference. (6)

True or false: Medicaid can pay nursing home costs.

TRUE. The question is, do you really want that to happen? While Medicaid rules vary per state, in most instances a person may only qualify for Medicaid if they have no more than $2,000 in "countable" assets ($3,000 for a couple). Countable assets include bank accounts, equity investments, certificates of deposit, rental or vacation homes, investment real estate, and even second cars owned by a household (assets held within certain trusts may be exempt). A homeowner can even be disqualified from Medicaid for having too

much home equity. A primary residence, a primary motor vehicle, personal property and household items, burial funds of less than $1,500, and tiny life insurance policies with face value of less than $1,500 are not countable. So yes, at the brink of poverty, Medicaid may end up paying long-term care expenses. (4,7)

Sadly, many Americans seem to think that the government will ride to the rescue when they or their loved ones need nursing home care or assisted living. Two-thirds of people polled in another Genworth Financial survey about eldercare held this expectation. (4)

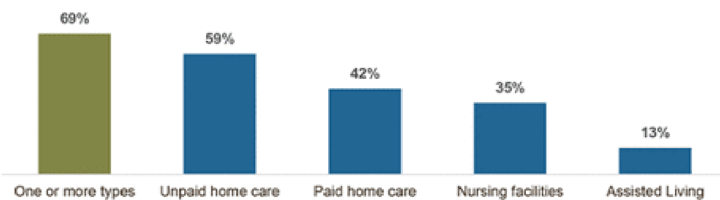
In reality, government programs do not help the average household pay for any sustained eldercare expenses. The financial responsibility largely falls on you.

A little planning now could make a big difference in the years to come. Call or email an insurance professional today to learn more about ways to pay for long-term care and to discuss your options. You need to find a way to address this concern, as it could seriously threaten your net worth and your retirement savings.

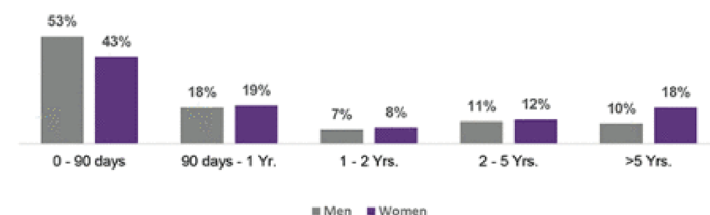
Long-term care planning | 33

Spending

Lifetime probability of needing long-term care (LTC) services by type



Lifetime distribution and duration of need for significant LTC at age 65



CONSIDER THE RANGE OF POSSIBLE CARE NEEDS

There is a high likelihood of needing care. This often starts at home before progressing to other settings.

While considering the range of possibilities, take into account that 1 in 10 men and nearly 2 in 10 women are projected to have a significant care need for more than 5 years.

Top chart: Includes all types of care including managing finances, taking medications, shopping, using transportation and food preparation, as well as more significant care needs. Bottom chart: Significant care needs includes two or more activities of daily living such as eating, dressing, bathing, transferring and toileting or severe cognitive impairment. Those who meet the cognitive impairment criteria who require care for less than 90 days are included in the 90 days – 1 year category.

Source: Top chart: U.S. Department of Health and Human Services, ASPE Issue Brief, Revised February 2016, Table 1. Bottom chart:: U.S. Department of Health and Human Services, Administration on Aging statistics last updated October 10, 2017. Most recent data available as of December 31, 2018.

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J.P.Morgan Asset Management

▲ Long-term care planning (https://am.jpmorgan.com/us/en/asset-management/gim/protected/adv/insights/guide-to-retirement)

At age 65, the lifetime likelihood of needing at least some care is nearly 70%. Most often, care will be at home although it may progress to other settings. Duration of care needs vary widely, with about 5 in 10 men and 4 in 10 women requiring significant care for zero – 90 days and 1 in 10 men and nearly 2 in 10 women needing significant care for 5 years or more. When planning for long-term care consider multiple solutions that may be utilized including family assistance, income, savings, home equity, life insurance for a surviving spouse, and insurance options that range from traditional long-term care insurance to combination products. (7)

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What’s the Difference Between an IRA and a 401(k) for Retirement Savings? (https://mahopacmoney.com/2019/02/24/whats-the-difference-between-an-ira-and-a-401k-for-retirement-savings/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Investing (https://mahopacmoney.com/category/investing/), Retirement (https://mahopacmoney.com/category/retirement/) · No Comments (https://mahopacmoney.com/2019/02/24/whats-the-difference-between-an-ira-and-a-401k-for-retirement-savings/#respond)

Comparing their features, merits, and demerits.

How do you save for retirement?

Two options probably come to mind right away: the IRA and the 401(k). Both offer you relatively easy ways to build a retirement fund. Here is a look at the features, merits, and demerits of each account, starting with what they have in common.

SIMILARITIES:

1. Taxes are deferred on money held within IRAs and 401(k)s.

That opens the door for tax-free compounding of those invested dollars – a major plus for any retirement saver. (1)

2. IRAs and 401(k)s also offer you another big tax break.

It varies depending on whether the account is traditional or Roth in nature. When you have a traditional IRA or 401(k), your account contributions are tax deductible, but when you eventually withdraw the money for retirement, it will be taxed as regular income. When you have a Roth IRA or 401(k), your account contributions are not tax deductible, but if you follow Internal Revenue Service rules, your withdrawals from the account in retirement are tax free. (1)

3. Generally, the I.R.S. penalizes withdrawals from these accounts before age 59½.

Distributions from traditional IRAs and 401(k)s prior to that age usually trigger a 10% federal tax penalty, on top of income tax on the withdrawn amount. Roth IRAs and Roth 401(k)s allow you to withdraw a sum equivalent to your account contributions at any time without taxes or penalties, but early distributions of the account earnings are taxable and may also be hit with the 10% early withdrawal penalty. (1)

4. You must make annual withdrawals from 401(k)s and traditional IRAs after age 70½.

Annual withdrawals from a Roth IRA are not required during the owner's lifetime, only after his or her death. Even Roth 401(k)s require annual withdrawals after age 70½. (2)

DIFFERENCES:

1.Annual contribution limits for IRAs and 401(k)s differ greatly.

You may direct up to $18,500 into a 401(k) in 2018; $24,500, if you are 50 or older. In contrast, the maximum 2018 IRA contribution is $5,500; $6,500, if you are 50 or older. (1)

2. Your employer may provide you with matching 401(k) contributions.

This is free money coming your way. The match is usually partial, but certainly nothing to disregard – it might be a portion of the dollars you contribute up to 6% of your annual salary, for example. Do these employer contributions count toward your personal yearly 401(k) contribution limit? No, they do not. Contribute enough to get the match if your company offers you one.1

3. An IRA permits a wide variety of investments, in contrast to a 401(k).

The typical 401(k) offers only about 20 investment options, and you have no control over what investments are chosen. With an IRA, you have a vast range of potential investment choices. (1,3)

4. You can contribute to a 401(k) no matter how much you earn.

Your income may limit your eligibility to contribute to a Roth IRA; at certain income levels, you may be prohibited from contributing the full amount, or any amount. (1)

5. If you leave your job, you cannot take your 401(k) with you.

It stays in the hands of the retirement plan administrator that your employer has selected. The money remains invested, but you may have less control over it than you once did. You do have choices: you can withdraw the money from the old 401(k), which will likely result in a tax penalty; you can leave it where it is;

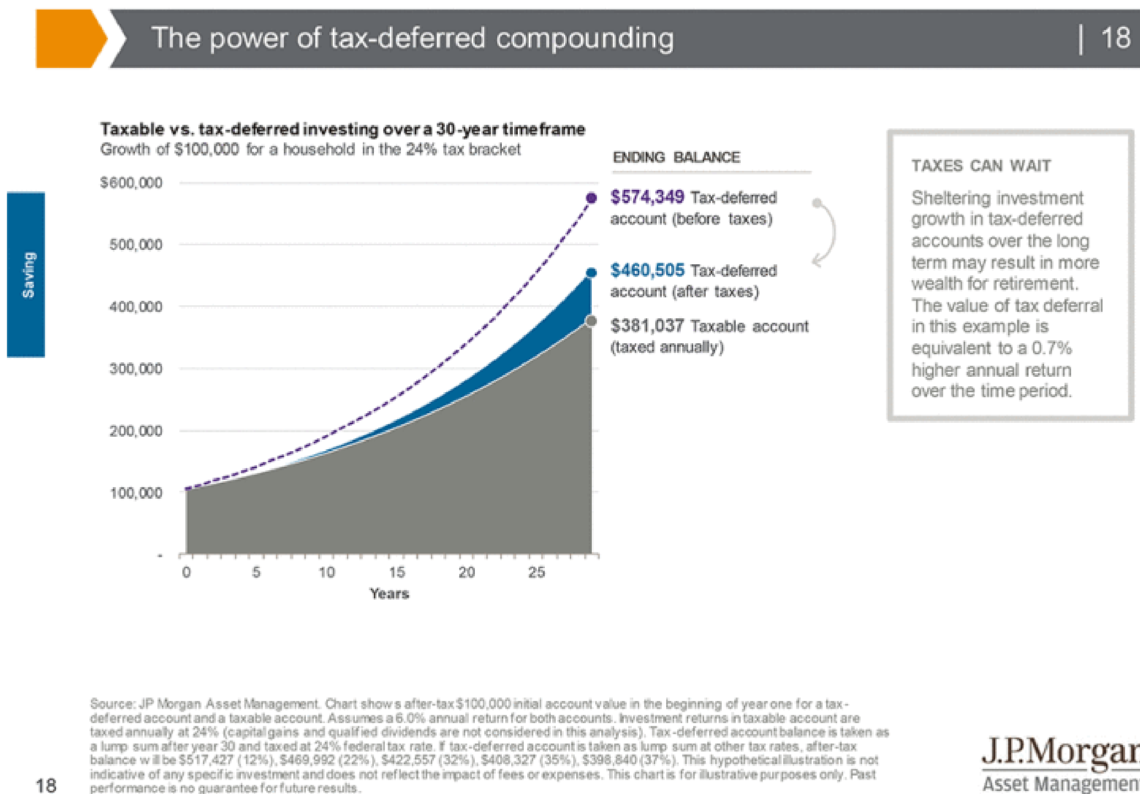
you can possibly transfer it to a 401(k) at your new job; or, you can roll it over into an IRA. (4,5)

6. You cannot control 401(k) fees.

Some 401(k)s have high annual account and administrative fees that effectively eat into their annual investment returns. The plan administrator sets such costs. The annual fees on your IRA may not nearly be so expensive. (1)

All this said, contributing to an IRA or a 401(k) is an excellent idea.

In fact, many pre-retirees contribute to both 401(k)s and IRAs at once. Today, investing in these accounts seems all but necessary to pursue retirement savings and income goals.



▲ The power of tax-deferred compounding (https://am.jpmorgan.com/us/en/asset-management/gim/protected/adv/insights/guide-to-retirement)

Deferring the tax on investment earnings, such as dividends, interest or capital gains, may help accumulate more after-tax wealth over time than earning the same return in a taxable account. This is known as tax-deferred compounding. This chart shows an initial $100,000 after-tax investment in either a taxable or tax-deferred account that earns a 6% return (assumed to be subject to ordinary income taxes). Assuming an income tax rate of 24%, the value of the tax-deferred account (net of taxes owed) after 30 years accumulates over $79,000 more than if the investment return had been taxed 24% each year. (6)

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How Working Past 65 Can Help Improve a Women's Retirement Prospects (https://mahopacmoney.com/2019/02/20/how-working-past-65-can-help-improve-a-womens-retirement-prospects/)

Scott Weiss, CFP® (https://mahopacmoney.com/author/mahopacmoney/) · Retirement (https://mahopacmoney.com/category/retirement/) · No Comments (https://mahopacmoney.com/2019/02/20/how-working-past-65-can-help-improve-a-womens-retirement-prospects/#respond)

Why striving to stay in the workforce a little longer may make financial sense.

The median retirement age for an American woman is 62.

The Federal Reserve says so in its most recent Survey of Household Economics and Decisionmaking (2017). Sixty-two, of course, is the age when seniors first become eligible for Social Security retirement benefits. This factoid seems to convey a message: a fair amount of American women are retiring and claiming Social Security as soon as they can. (1)

What if more women worked into their mid-sixties?

Could that benefit them, financially? While health issues and caregiving demands sometimes force women to retire early, it appears many women are willing to stay on the job longer. Fifty-three percent of the women surveyed in a new Transamerica Center for Retirement Studies poll on retirement said that they planned to work past age 65. (2)

Staying in the workforce longer may improve a woman's retirement prospects.

If that seems paradoxical, consider the following positives that could result from working past 65:

1. More years at work leaves fewer years of retirement to fund.

Many women are worried about whether they have saved enough for the future. Two or three more years of income from work means two or three years of not having to draw down retirement savings.

2. Retirement accounts have additional time to grow and compound.

Tax-deferred compounding is one of the greatest components of wealth building. The longer a tax-deferred retirement account has existed, the more compounding counts.

Suppose a woman directs $500 a month into such a tax-favored account for decades, with the investments returning 7% a year. For simplicity's sake, we will say that she starts with an initial contribution of $1,000 at age 25. Thirty-seven years later, she is 62 years old, and that retirement account contains $974,278. (3)

If she lets it grow and compound for just one more year, she is looking at $1,048,445. Two more years? $1,127,837. If she retires at age 65 after 40 years of contributions and compounded annual growth, the account will contain $1,212,785. By waiting just three years longer, she leaves work with a retirement account that is 24.4% larger than it was when she was 62. (3)

A longer career also offers a chance to improve Social Security (https://mahopacmoney.com/2019/02/04/4-important-questions-youll-need-to-answer-before-claiming-social-security/) benefit calculations.

Social Security (https://mahopacmoney.com/2019/02/04/4-important-questions-youll-need-to-answer-before-claiming-social-security/) figures retirement benefits according to a formula. The prime factor in that formula is a worker's average indexed monthly earnings, or AIME. AIME is calculated based on that worker's 35 highest-earning years. But what if a woman stays in the workforce for less than 35 years? (4)

Some women interrupt their careers to raise children or care for family members or relatives.

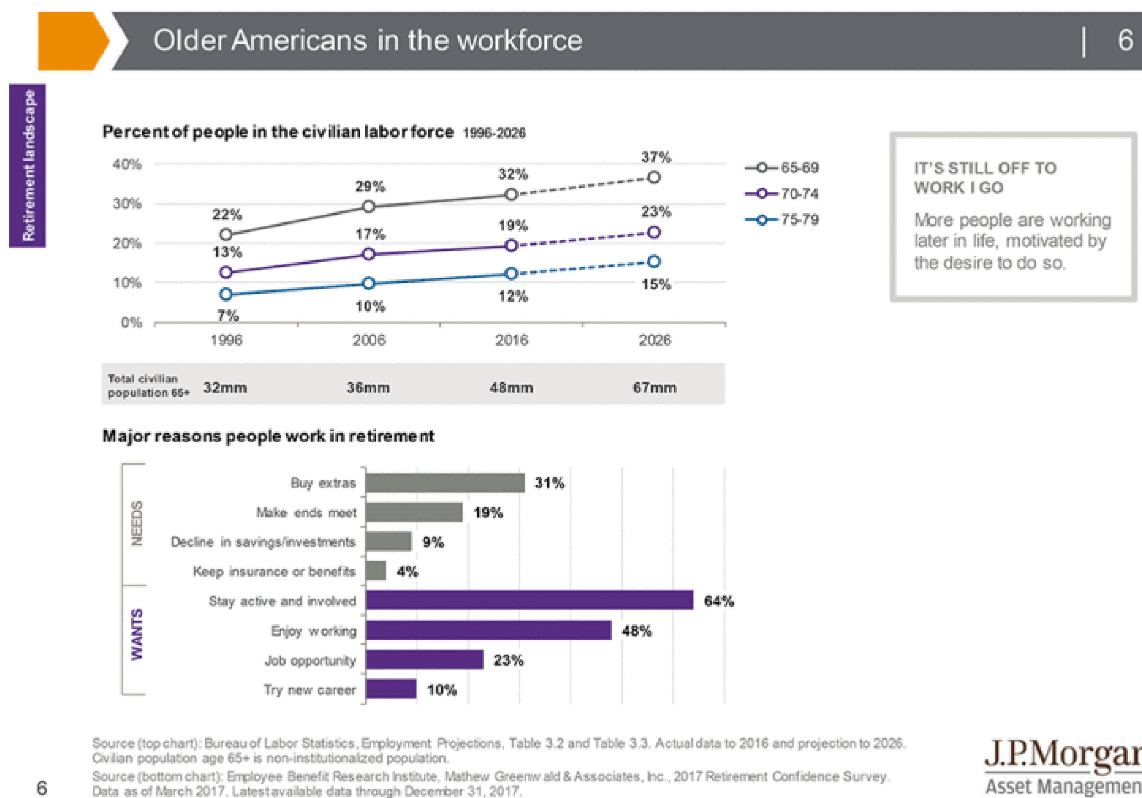
This is certainly work, but it does not factor into the AIME calculation. If a woman's work record shows fewer than 35 years of taxable income, years without taxable income are counted as zeros. So, if a woman has only earned taxable income in 29 years of her life, six zero-income years are included in the AIME calculation, thereby dragging down the AIME. By staying at the office longer, a woman can replace one or more of those zeros with one or more years of taxable income. (4)

In addition, waiting to claim Social Security (https://mahopacmoney.com/2019/02/04/4-important-questions-youll-need-to-answer-before-claiming-social-security/) benefits after age 62 also results in larger monthly Social Security payments.

A woman's monthly Social Security (https://mahopacmoney.com/2019/02/04/4-important-questions-youll-need-to-answer-before-claiming-social-security/) benefit will grow by approximately 8% for each year she delays filing for her own retirement benefits. This applies until age 70. (4)

Working longer might help a woman address major retirement concerns.

It is an option worth considering, and its potential financial benefits are worth exploring.



▲ Older Americans in the workforce (https://am.jpmorgan.com/us/en/asset-management/gim/protected/adv/insights/guide-to-retirement)

The long-term trend is that more people are working at older ages, as seen in the top chart. Even so, with the large increase in the age 65+ population shown in the grey shading, there will be more people than ever stopping work in the coming years. The bottom chart shows the reasons for working in retirement, or after they typically have retired from their primary career. It indicates that the definition of retirement is changing, as more people are working due to positive reasons such as wanting to stay active and socially engaged more so than for financial reasons.

Sources

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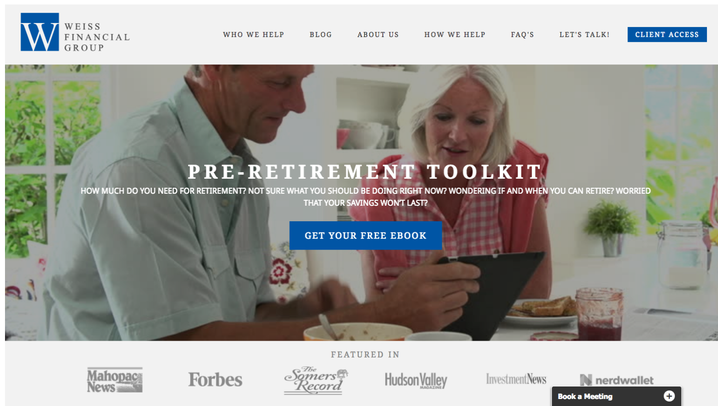

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