

RETIREMENT PLANNING

HOW TO CREATE A
RETIREMENT INCOME PLAN





Robert Weissbein

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8201 Peters Road, Suite 1000
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10 MYTHS ABOUT RETIREMENT PLANNING

INTRODUCTION

Well-thought-out retirement plans have become increasingly important in recent years. Why? Because with life expectancies increasing, the vagaries of the stock market, and the erosive effects of inflation and taxes, it's virtually impossible to determine if you have saved enough for a retirement that could last several decades.

A sound retirement plan can mean the ability to fulfill your long cherished dreams

of financial security by living a relaxed life-style in the community of your choice. For some, it will be traveling, finding new hobbies, or dining out frequently – in other words, harvesting the fruits of wealth with the thought that “money is no problem.”

As you go about planning for retirement, you'll want to make sure you take into account the following 10 myths that could lead you astray.



MYTH #1: I'LL START SAVING FOR RETIREMENT WHEN IT'S MORE CONVENIENT

A secure retirement requires you to begin saving now – whether it's easy or not. You must avoid the trap that you should save for retirement only after you pay off the mortgage and pay for the kid's college. That may have worked decades ago when people weren't living as long as they do now. With retirements now lasting 20, 30 or more years, you could spend as many years in retirement as you did in your working career.

As a result, you need a bigger nest egg than previous generations required in order to fund those

extra years. That means you should start saving for retirement well before you stop working.

The sooner you start saving, the sooner you will start harnessing the power of compounding your returns – which is one of the most powerful tools you have at your disposal for achieving financial security. Albert Einstein is said to have called compound interest the "8th Wonder of the World." Nor did its power escape Ben Franklin, who said, "Money makes money. And the money that money makes, makes money."

Thanks to compounding, the sooner you begin saving, the less you must save each month to reach your savings goal, which makes the process easier to accomplish.

Conversely, the longer you wait, the more you must save each month, making it harder to reach the goal.

So start your savings program now. If you have money automatically deducted from each paycheck before it reaches you and have the money placed in a retirement account, you'll soon adjust your spending habits and you won't miss the amount deducted at all. It could make a huge difference in how you spend your retirement years.

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MYTH #2: I CAN LIVE OFF MY SOCIAL SECURITY PAYMENTS

For most people, their Social Security benefits are often insufficient to provide the necessary income for a comfortable financial future. Currently, retirees receive an average monthly income of \$1,503 from Social Security. That's about \$18,000 per year.¹ That's barely enough to pay for your housing costs and put food on the table, let alone enjoy a comfortable retirement.

What's worse is that Social "Security" isn't secure at all because, within the next couple of decades, there won't be enough active workers to support all the retired workers. According to the latest projections, Social Security benefits will need to

be slashed by 20% in 2035 to make up for the estimated shortfall – unless Congress takes action.²

The question is: do you want the quality of your retirement to be dependent on what Congress does? Of course you don't! That's why you must plan ahead by setting goals and deciding how they will be met. For most people, that means creating retirement income that goes above and beyond their Social Security benefits. It's up to you, not Washington, to do that.

1) <https://www.ssa.gov/news/press/factsheets/colafacts2020.pdf>

2) <https://www.ssa.gov/oact/TRSUM/>



MYTH #3: MEDICARE WILL COVER MY MEDICAL EXPENSES

Medicare provides us with both good news and bad news.

Medicare can give you very affordable health insurance coverage for doctor visits, medication and hospitalization once you turn 65. That's the good news. However, Medicare doesn't cover the cost of deductibles, co-pays or any long-term care that lasts longer than 100 days. Those costs are on you – which is the bad news.

Unfortunately, the biggest health expense facing retirees today is long-term care. The median annual cost for care at an assisted living facility is \$48,000, while a private room at a nursing home costs more than double that.¹ On average, more than half of the people turning 65 today will need long-term care of some kind.²

What it boils down to is that a good retirement

plan should take into account the possibility of needing to pay for long-term care. One way to pay for the cost is through long-term care insurance. It's best to start early, because the sooner you get started, the lower the premiums will be.

Another way is to self-insure by saving the money you might need. One of the best ways to self-insure is through a Health Savings Account (HSA). Not only does the money you invest in an HSA grow tax-free, but you can also take out money in retirement to pay for medical expenses without paying any taxes on it. That's a winning proposition.

In other words – regardless of Medicare – you need to plan ahead!

1) <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>

2) <https://www.aarp.org/content/dam/aarp/ppi/2017-01/Fact%20Sheet%20Long-Term%20Support%20and%20Services.pdf>



MYTH #4: IT'S TOO LATE TO SAVE FOR RETIREMENT

This is one of the most common myths. Here's the reality: no matter how close you are to retiring, you still have time to grow your retirement savings.

For instance, suppose you're 40 and bring home around \$4,000 a month. If you invest 15% of your income until you retire, you could end up with a nest egg worth over \$1 million. But what if you're 50? It's going to be tougher, but if you contribute 25% of your income toward retirement until you're 67, you could wind up with over \$500,000.

Nor is it too late when you're 60. At that age, there are two things working in your favor. The first is

that most of the larger household expenses should be out of the way or paid off. Secondly, you're at or near the peak earning years. The combination of near-peak earnings and lower expenses means you should have a lot of disposable income. If you pour that extra income into a good savings program and give it time to work, you'll be a long ways toward achieving your retirement goals.

No matter how old you are or how much, or little, you've saved so far, you can still do something. Don't waste another day. The more time your money has to grow, the more compound growth can work in your favor.



MYTH #5: I'VE SAVED ENOUGH TO LIVE ON UNTIL I'M 85, WHICH IS MY LIFE EXPECTANCY

Statistically that may have some merit. For those who retire at 65, the average life expectancy is about 20 years, according to the Social Security Administration's actuarial table.¹

The trouble is, the longer you live, the longer you're likely to live. For instance, at age 85, the table shows that you're likely to live another 7 years; at 90, another 5 years; at 95, another 3 years; and so it goes. The bottom line is that there's no sure fire way of projecting how long you will live. That's the reason many professional retirement planners develop plans that provide clients with retirement income through age 100 or even longer.

The key principle here is your retirement plan must provide income to support your life until you die – no matter when that occurs. It could be much longer than average or it could be less. If

it's less and you leave money behind, it's doubtful you'll regret having that money to pass on to someone else. However, if you live longer than average and don't plan for it, you're guaranteed to regret deeply running out of money.

That's why you have no real choice but to manage your money by assuming you'll live for 90 to 100 years, unless genetics or current health argues otherwise. In fact, be aware that currently the fastest growing population age group is 85+, and living to age 100 may become relatively common with all the developments in biotechnology, nanotechnology, and health care.²

Financial planning based on average life expectancy is a dangerous myth.

1) <https://www.ssa.gov/oact/STATS/table4c6.html>

2) <https://transgenerational.org/aging/demographics.htm>



MYTH #6: I'LL WORK DURING MY RETIREMENT YEARS

Yes, it's possible you may be able to continue working until age 70 or longer, but there are two common factors beyond your control that could change your plans. For instance, there's health. Your health or your spouse's health might prevent you from continuing to work, either in your current occupation or a new one. This is especially true if your work is physically demanding and you are no longer able to perform the tasks required of you.

Another factor is the possibility of company layoffs or downsizing. It is common for the longest tenured employees to be the most vulnerable, because they command some of the highest wages. If a company is experiencing financial difficulty, everyone's job security is at risk.

Finding a part-time job in retirement can also be a

problem. Retirees often find that there are few well-paying part-time jobs available and, if they do find a job, it may be more demanding than the one-day-a-week schedule they envisioned. For retirees leaving successful careers, an entry-level part-time job at the local mall can be especially distasteful.

If you're thinking of supplementing your retirement income with a job, consider the statistics. According to a recent Retirement Confidence Survey, 74% of workers say they plan to work during their retirement years. Yet, only 27% of retirees say they were actually able to do so.¹

That means, if you plan to work during retirement, there's a good chance you plans will fail.

1) https://www.ebri.org/docs/default-source/rcs/2020-rcs/rcs_20-fs-2.pdf?sfvrsn=ffbc3d2f_6



MYTH #7: ALL I'LL NEED IS 70% OF MY PRE-RETIREMENT INCOME DURING RETIREMENT

Needing 70% of your pre-retirement income is one of various formulas for estimating retirement expenses, all of which are rough guesses at best. Another well-known rule is that you'll need about 80% of the amount you spend going into retirement.¹

These formulas are based on the assumption that some major expenses will go down in retirement, such as commuting costs and retirement-plan contributions. Of course, other expenses may go up, such as vacation travel, for example, and healthcare.

Many retirees report that their expenses in the first few years were actually equal to and sometimes exceeded what they spent while working, according to a report by the Society of Actuaries.² One reason for this is that retirees simply may have more time to go out and spend money.

The report found that it's common for retirees' expenses to go through three distinct phases:

1. Higher spending early on because many retirees replace their work lifestyle with expensive, active lifestyles.

2. Modest spending for a long period after that because of diminished activity and consumption levels as their age increases.
3. Higher spending near the end of life, due to medical or long-term care expenses.

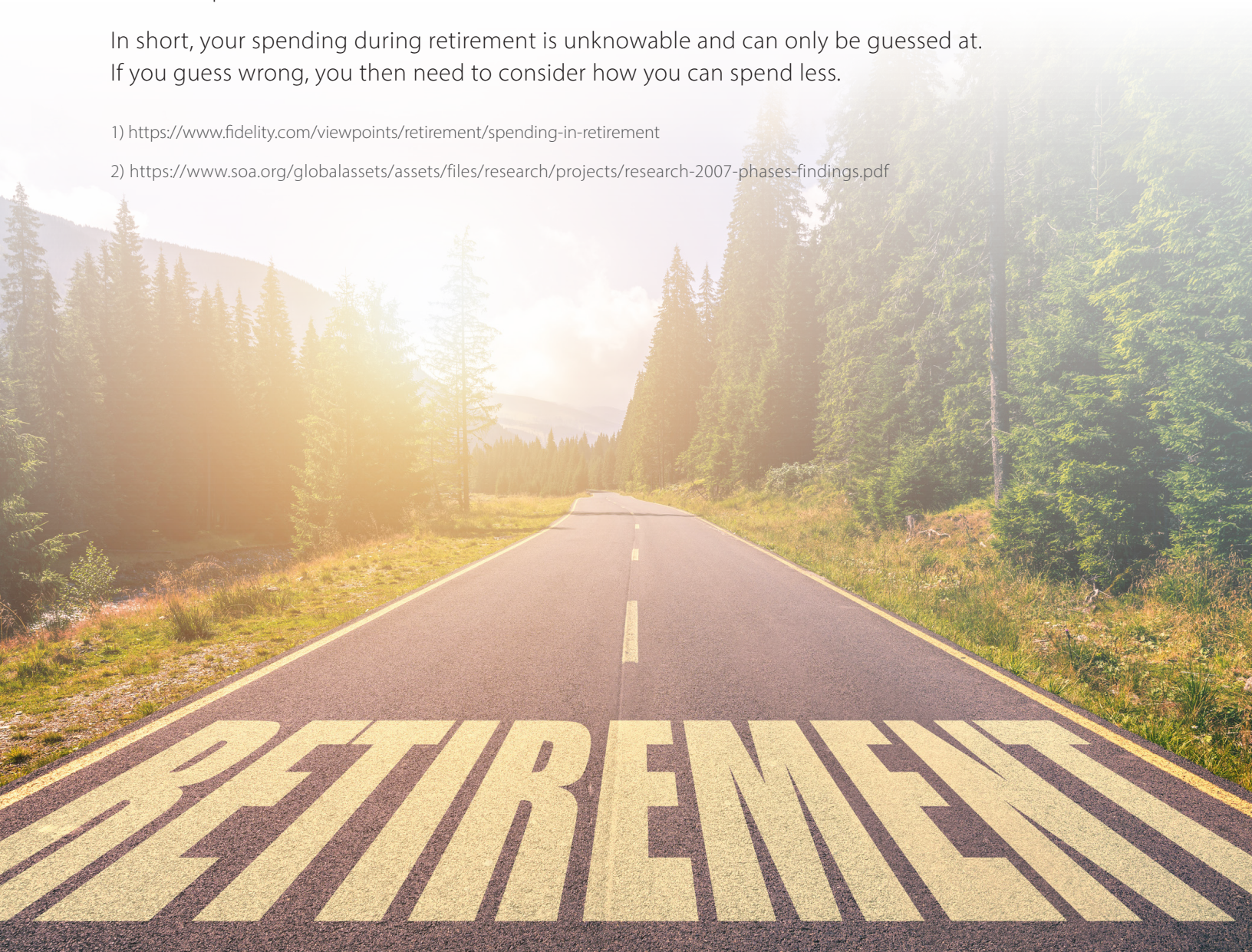
Because there are so many different factors involved for each individual retiree, a rule-of-thumb like “70% of pre-retirement income” is hardly a safe estimate.

The smarter alternative is to put together a budget based on your personal situation and goals for retirement, then stress-test those figures with various inflation assumptions and potential costs for health crises.

In short, your spending during retirement is unknowable and can only be guessed at. If you guess wrong, you then need to consider how you can spend less.

1) <https://www.fidelity.com/viewpoints/retirement/spending-in-retirement>

2) <https://www.soa.org/globalassets/assets/files/research/projects/research-2007-phases-findings.pdf>





MYTH #8: I'LL SAVE ON TAXES BECAUSE I'LL BE IN A LOWER TAX BRACKET

While that is possible, it is not a given that you'll move to a lower bracket in retirement. Even if you do, the change will likely be just a few percentage points rather than a major shift. For example, a couple in 2019 with a pre-retirement income of \$157,500 would have to earn about 48% less to move from the 24% bracket to the 22% bracket and about 75% less to move to the 12% bracket.

Yes, your salary and your FICA taxes will be going away, but you will still have income, such as distributions from retirement accounts and Social Security benefits. For married couples filing jointly, up to 85% of your Social Security income may be

taxable if your modified adjusted gross income is more than \$44,000.

You should remember that as recently as the 1980s, the top federal tax bracket was a whopping 70%. While tax rates aren't likely to return to that level anytime soon, it is possible rates could rise in the future. So if your taxable income remains the same in retirement as when you were working, higher rates in the future could boost your tax liability.

Unless you have a very high pre-retirement income, it's safer to assume that you will keep paying taxes at roughly the same rate after you stop working.



MYTH #9: AFTER I RETIRE, I'LL PROTECT MY MONEY BY INVESTING VERY CONSERVATIVELY

A conservative retirement portfolio built on bonds and CDs made sense for earlier generations when life expectancies were short, but that isn't the situation facing today's retirees.

The old standard for retirement investing was to preserve capital so it could be spent over a 10-15 year period. But today's retirees are facing 30+ year time horizons with inflation eating at their purchasing power, making a no-risk portfolio potentially the most risky portfolio of all.

An inflation rate of just 4% will cut your purchasing power in half about every 18 years, meaning

you have to double your money just to break even. If you don't double your money, it means your nest egg is worth effectively half as much. Imagine living long enough to have that happen twice during your retirement. It's equivalent to living on one-fourth the portfolio you began with.

The rule is clear: today's retirees must not only preserve capital, but they must grow it as well to preserve purchasing power. The result is many financial advisors now encourage stock investing to add a growth component to your portfolio to offset inflation.



MYTH #10: I CAN PLAN MY RETIREMENT ON MY OWN

It should be obvious from the myths outlined here that a sound retirement plan must take into consideration many different factors. Unless you're well versed in these factors, you could end up making serious mistakes that will sabotage your retirement years, making them far less pleasant than you'd like.

For instance, when it comes to investing, it can be tempting to go it alone. But when you go it alone, emotions can get the best of you and cause you to jump in and out of the market when it goes up or down. Trying to time the market in that way only costs you in the end. A professional can help you focus on the long term.



CONCLUSION

The long term is definitely what you need to focus on when you're facing a retirement that might last 20, 30 or more years. That's why you'll want to think about working with a professional retirement planner who is well versed in the intricacies of retirement.

Professionals are trained to take into consideration your age, health, financial needs, tolerance for risk, goals, pre- and post-retirement lifestyles, and other factors when developing a comprehensive plan to

guide you through your golden years. Once your plan is implemented, a dedicated retirement planner will work with you over the years to help keep your plan on track with your changing needs and the ever-shifting economic and financial environment.

Are you certain you can do all that is required to achieve the retirement you envision? If not, then you should seriously think about sitting down with a professional.

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