

Retirement by the Numbers

The Confident Retirement Solution

Dale Frank | Dale A. Frank Financial Group

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FOREWORD

The Importance of Planning

In 2000, the Dow Jones Industrial Average (DJIA) was at an all-time high at around 12,000 points. A gentleman, whom I'll call Elliot, came to one of my seminars. He set up an appointment with me, and, two weeks later, we sat down together in my office. I was impressed as he explained his portfolio. He'd done well for himself in his sixty years. He had about a million dollars to his name. So, I worked with him to put together an income strategy. It was one I thought was appropriately conservative; it was designed to secure his assets and usher him into retirement with confidence.

He disagreed.

For years, Elliot had made big money on the market. Why would he want to sacrifice returns when his assets only seemed to grow? He took my strategy to another “advisor”—a broker—with whom he'd worked before.

“Look,” Elliot said to me, “I've got to be honest with you. My guy said your approach is too conservative—that I'd be throwing away money if I listen to you. I believe him.”

I told him that was fine, and I wished him the best.

That was before the two major bear markets and recession that happened between 2000 and 2010. I often think of Elliot and how his portfolio, risk-exposed as it was, likely turned out. Did his broker reposition him in time? Did he have enough income to support his lifestyle? Or did he, like many others whose assets were overexposed in those times, have to return to work to rebuild his nest egg?

How Much is Enough?

As you prepare for retirement, inevitably the question will arise: How much money do you need? It's a fair question, but I think it gets too much attention. After all, a million dollars in the stock market and a million dollars in a savings account are entirely different things.

Too often, soon-to-be retirees fixate on the number when, really, you should focus more on the financial plan. As Elliot's case demonstrates, even a respectable figure may not get you through retirement if it's not positioned correctly. The key is to establish lifetime income, and that's where a financial professional can prove invaluable.

Much of my focus as an insurance and retirement professional is on helping people avoid the missteps of retirement income planning. As you approach retirement, it's important to remember time is not on your side. To combat this, I want to help you leverage the system to get the biggest bang for your buck. But, to do that, it's important you understand how your longevity, the tax system, your retirement income, and market volatility affect your overall plan. Much of this book is dedicated to examinations of those topics. I've helped people prepare for their retirement dreams for over forty-two years. I've seen a lot of change in the retirement landscape, but the fundamentals of a sound retirement remain the same: it all comes down to income.

How we establish lasting income these days, however, varies tremendously from times past. Every day, I sit down with potential clients who paint for me a vision of retirement based on what I believe to be archaic ideas. Unfortunately, you probably cannot retire like your parents and grandparents before you. Believe me, today's retirement climate is a different ballgame.

You must consider many variables when planning for retirement, and there are many potential pitfalls you must look out for along the way. My goal is to help you protect your assets from the risks of poor planning and mismanagement. Then,

you can have greater confidence you'll have enough money to live out the rest of your days stress-free.

If you're reading this book, it's probably because you want to enter retirement with confidence, knowing you'll have exactly what you need. If that's true, you've come to the right place. As you read this book, you'll learn some specific factors that could affect your retirement prospects and how they fit into the bigger picture. You'll learn the value of a comprehensive retirement plan and what things it should include. You'll read about taxes, Social Security, the stock market, insurance, and so much more.

So, let's get started.

Longevity

You would think the prospect of the grave would loom more frightening as we age, yet many retirees say their number one fear is actually running out of money in their twilight years.¹ This fear is unfortunately justified, in part, because of one significant factor: We’re living longer.

According to the Social Security Administration’s 2011 Trustee Report, in 1950, the average life expectancy for a sixty-five-year-old man was seventy-eight, and the average for a sixty-five-year-old woman was eighty-one. In the 2022 Trustees Report issued by the SSA, those averages were eighty-three and eighty-five, respectively.²

The bottom line of many retirees’ budget woes comes down to this: They just didn’t plan to live so long. Now, when we are younger and in our working years, that’s not something we necessarily see as a bad thing; don’t some people fantasize about living forever or, at least, reaching the ripe old age of one hundred?

However, with a longer lifespan, as we near retirement, we face a few snags. Our resources are finite—we only have so much money to provide income—but our lifespans can be

¹ Liz Weston. *nerdwallet.com*. March 25, 2021. “Will You Really Run Out of Money in Retirement?”

<https://www.nerdwallet.com/article/finance/will-you-really-run-out-of-money-in-retirement>

² Social Security Administration. 2022 Trustees Report. “Actuarial Life Table” <https://www.ssa.gov/oact/STATS/table4c6.html>

unpredictably long, perhaps longer than our resources allow. Also, longer lives don't necessarily equate with healthier lives. The longer you live, the more money you will likely need to spend on health care, even excluding long-term care needs like nursing homes.

You will also run into inflation. If you don't plan to live another twenty-five years but end up doing so, inflation at an average 3 percent will approximately double the price of goods over that time period. Put a harsh twist on that and the buying power of a ninety-year-old will be half of what they possessed if they retired at sixty-five.³

Because we don't necessarily get to have our cake and eat it, too, our collective increased longevity hasn't necessarily increased the healthy years of our lives. Typically, our life-extending care most widely applies to the time in our lives where we will need more care in general. Think of common situations like a pacemaker at eighty-five, or cancer treatment at seventy-eight.

"Wow, Dale," I can hear you say. "Way to start with the good news first."

I know, I've painted a grim picture, but all I'm concerned about here is cost. It's hard to put a dollar sign on life, but that is essentially what we're talking about when discussing longevity and finances. Living longer isn't a bad thing; it just costs more, and one key to a sound retirement strategy is preparing for it in advance.

Over the years, I can think of many success stories of people who planned well and reaped the benefits. One woman I know illustrates this picture perfectly. Her mother passed away in her late seventies after years of suffering from Alzheimer's disease. Her father died at eighty from cancer. With modern medicine and treatment, this woman survived two rounds of breast cancer, lived with diabetes, and relied on a pacemaker,

³ Bob Sullivan, Benjamin Curry. Forbes. April 28, 2021. "Inflation And Retirement Investments: What You Need to Know."

<https://www.forbes.com/advisor/retirement/inflation-retirement-investments/>

extending her life to age eighty-eight—nearly a decade beyond what she anticipated. However, she and her husband had saved and planned for “just in case,” trying to be prepared if they had to move, needed nursing home care, or needed to help children and grandchildren with their expenses. One of their “just-in-case” scenarios was living much longer than they anticipated. The last six years of her life were fraught with medical expenses, but she was also blessed with knowing her five great-grandchildren and deepening relationships with her children and grandchildren. She was able to pay for her own medical care, including her final two years in a nursing home, and her twilight years were truly golden.

From age eighty-five to eighty-eight, she was more socially active, with many visits from family and friends. She participated in more activities than she had in the seven years since her husband died. Her planning from decades earlier allowed her to pass on a legacy to her children when she passed away herself. The legacy she left behind can be measured both in dollar signs *and* in other intangible ways.

Living longer may be more expensive, but it can be so meaningful when you plan for your “just-in-cases.”

Retiring Early

A key part of planning for retirement revolves around retirement income. After all, retirement is cutting the cord that tethers you to your employer—and your monthly check. However, that check often comes with many other benefits, particularly health care. Health care is often the thing that can unexpectedly put dreams for an early retirement on hold. Some employers offer health benefits to their retired workers, but that number has declined drastically over the past several decades. In 1988, among employers who offered health benefits

to their workers, 66 percent offered health benefits to their retirees. In 2022, that number was 21 percent.⁴

So, with employer-offered retirement health benefits on the wane, this becomes a major point of concern for anyone who is looking to retire, particularly those who are looking to retire before age sixty-five, when they would become eligible for Medicare coverage. Fidelity estimates that the average retired couple at age sixty-five will need approximately \$315,000 for health care expenses in retirement, not including long-term care.⁵ Do you think it's likely that cost will decrease?

Even if you are working until age sixty-five or have plans to cover your health expenses until that point, I often have clients who incorrectly assume Medicare is their golden ticket to cover all expenses. That is simply not the case.

Retiring Later

Planning for a long life in retirement partly depends on when you retire. While many people end up retiring earlier than they anticipated—due to injuries, layoffs, family crises, and other unforeseen circumstances—continuing to work past age sixty (and even sixty-five) is still a viable option for others and can be an excellent way to help establish financial comfort in retirement.

There are many reasons for this. For one, you obviously still earn a paycheck and the benefits accompanying it. Medical coverage and beefing up your retirement accounts with further savings can be significant by themselves but continuing your income also should keep you from dipping into your retirement funds, further allowing them the opportunity to grow.

⁴ Henry J. Kaiser Family Foundation. October 27, 2022. “2022 Employer Health Benefits Survey Section Eleven: Retiree Health Benefits.” <https://www.kff.org/report-section/ehbs-2022-section-11-retiree-health-benefits/>

⁵ Fidelity Viewpoints. Fidelity. August 29, 2022.. “How to Plan for Rising Health Care Costs.” <https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs>

Additionally, for many workers, their nine-to-five job is more than just clocking in and out. Having a sense of purpose can keep us active physically, mentally, and socially. That kind of activity and level of engagement may also help stave off many of the health problems that plague retirees. Avoiding a sedentary life is one of the advantages of staying plugged into the workforce, if possible.

This was the case with one man I worked with. At retirement age, he had a few million dollars split between a Roth IRA, a traditional IRA, and personal savings accounts. He was determined to work until he physically couldn't work anymore. He said before he retired, he planned to amass \$18 million in his account. I thought he was crazy! I made him a bet: "If you reach that balance," I said, "I'll take you out for dinner at any restaurant of your choice."

Sure enough, he reached his goal, and I bought him dinner from the finest steakhouse in town. But, even after he reached this goal, he kept working for about another year and a half until his health no longer permitted. By that time, funds in his accounts had reached \$23 million.

This may be an exceptional case—having circumstances that allow you to keep working longer are not always possible—but it illustrates a point. This man kept working even when he could have retired because *he just loved his work*. It gave him purpose and fulfillment. When he finally could work no longer, he had more than enough to live out the rest of his days and to pass on a healthy inheritance to his kids.

Health Care

Take a second to reflect on your health care plan. Although working up to or even past age sixty-five would allow you to avoid a coverage gap between your working years and Medicare, that may not be an option for you. Even if it is, when you retire, you will need to make some decisions about what kind of insurance coverage you may need to supplement your

Medicare. Are there any medical needs you have that may require coverage in addition to Medicare? Did your parents or grandparents have any inherited medical conditions you might consider using a special savings plan to cover?

These are all questions that are important to review with your financial professional so you can be sure you have enough money put aside for health care.

Long-Term Care

Longevity means the need for long-term care is statistically more likely to happen. If you intend to pass on a legacy, planning for long-term care is paramount, since it's estimated that nearly 70 percent of Americans will need some type of it.⁶ However, this may be one of the biggest, most stressful pieces of longevity planning I encounter in my work. For one thing, who wants to talk about the point in their lives when they may feel the most limited? Who wants to dwell on what will happen if they no longer can toilet, bathe, dress, or feed themselves?

I get it; this is a less-than-fun part of planning. But a little bit of preparation now can go a long way!

When it comes to your longevity, just like with your goals, one of the important things to do is sit and dream. It may not be the fun, road-trip-to-the-Grand-Canyon kind of dreaming, but you can spend time envisioning how you want your twilight years to look.

For instance, if it is important for you to live in your home for as long as possible, who will provide for the day-to-day fixes and to-dos of housework if you become ill? Will you set aside money for a service, or do you have relatives or friends nearby whom you could comfortably allow to help you? Do you prefer in-home care over a nursing home or assisted living? This could be a good time to discuss the possibility of moving into a

⁶ LongTermCare.gov. February 18, 2020. "How Much Care Will You Need?" <https://acl.gov/ltc/basic-needs/how-much-care-will-you-need>

retirement community versus staying where you are or whether it's worth moving to another state and leaving relatives behind.

These are all important factors to discuss with your spouse and children, as *now* is the right time to address questions and concerns. For instance, is aging in place more important to one spouse than the other? Are the friends or relatives who live nearby emotionally, physically, and financially capable of helping you for a time if you face an illness?

Many families I meet with find these conversations very uncomfortable, particularly when children discuss nursing home care with their parents. A knee-jerk reaction for many is to promise they will care for their aging parents. This is noble and well-intentioned, but there needs to be an element of realism here. Does "help" from an adult child mean they stop by and help you with laundry, cooking, home maintenance, and bills? Or does it mean they move you into their spare room when you have hip surgery? Are they prepared to help you use the restroom and bathe if that becomes difficult for you to do on your own?

I don't mean to discourage families from caring for their own; this can be a profoundly admirable relationship when it works out. However, I've seen families put off planning for late-in-life care based on a tenuous promise that the adult children would care for their parents, only to watch as the support system crumbles. Sometimes this is because the assumed caregiver hasn't given serious thought to the preparation they would need, both in a formal sense and regarding their personal physical, emotional, and financial commitments. This is often also because we can't see the future: Alzheimer's disease and other maladies of old age can exact a heavy toll. When a loved one reaches the point where he or she is at risk of wandering away or needs help with two or more activities of daily living, it can be more than one person or family can realistically handle.

If you know what you want, communicate with your family about both the best-case and worst-case scenarios. Then, hope for the best, and plan for the worst.

Realistic Cost of Care

Wrapped up in your planning should be a consideration for the cost of long-term care. The potential costs for such care and treatment can be underestimated, especially by those who have maintained robust health and find it difficult to envision future declines to their condition.

Another piece of planning for long-term care costs is anticipating inflation. It's common knowledge that prices have been and keep rising, which will lower your purchasing power on everything from food to medical care. Long-term care is a big piece of the inflation-disparity pie.

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While local costs vary from state to state, following is the national median for various forms of long-term care (plus projections that account for a 3 percent annual inflation, so you can see what I am referencing):⁷

⁷ Genworth Financial. June 2022. "Cost of Care Survey 2022."
<https://www.genworth.com/aging-and-you/finances/cost-of-care.html>

Long-Term Care Costs: Inflation				
	Home Health Care, Homemaker Services	Adult Day Care	Assisted Living	Nursing Home (semi-private room)
Annual 2021	\$59,488	\$20,280	\$54,000	\$94,900
Annual 2031	\$79,947	\$27,255	\$72,571	\$127,538
Annual 2041	\$107,442	\$36,628	\$97,530	\$171,400
Annual 2051	\$144,393	\$49,225	\$131,072	\$230,347

Fund Your Long-Term Care

One critical mistake I see are those who haven't planned for long-term care because they assume the government will provide everything. But that's a big misconception. The government has two health insurance programs: Medicare and Medicaid. These can greatly assist you in your health care needs in retirement but usually don't provide enough coverage to cover all your health care costs. My firm isn't a government outpost, so we don't get to make decisions when it comes to forming policy and specifics about either one of these programs. I'm going to give the overview of both, but if you want to dive into the details of these programs, you can visit www.Medicare.gov and www.Medicaid.gov.

Medicare

Medicare covers those aged sixty-five and older and those who are disabled. Medicare's coverage of any nursing-home-related

health issues is limited. It might cover your nursing home stay if it is not a “custodial” stay, and it isn’t long-term. For example, if you break a bone or suffer a stroke, stay in a nursing home for rehabilitative care, and then return home, Medicare may cover you. But, if you have developed dementia or are looking to move to a nursing facility because you can no longer bathe, dress, toilet, feed yourself, or take care of your hygiene, etc., then Medicare is not going to pay for your nursing home costs.⁸

You can enroll in Medicare anytime during the three months before and three months after your sixty-fifth birthday. Miss your enrollment deadline, and you could risk paying increased premiums for the rest of your life.⁹ On top of prompt enrollment, there are a few other things to think about when it comes to Medicare, not least among them being the need to understand the different “parts,” what they do, and what they don’t cover.

Medicaid

Medicaid is a program the states administer, so funding, protocol, and limitations vary. Compared to Medicare, Medicaid more widely covers nursing home care, but it targets a different demographic: those with low incomes.

If you have more assets than the Medicaid limit in your state and need nursing home care, you will need to use those assets to pay for your care. You will also have a list of additional state-approved ways to spend some of these assets over the Medicaid limit, such as pre-purchasing burial plots and funeral expenses or paying off debts. After that, your remaining assets fund your nursing home stay until they are gone, at which point Medicaid will jump in.

Some people aren’t stymied by this, thinking they will just pass on their financial assets early, gifting them to relatives,

⁸ Medicare.gov. “What Part A covers.” <https://www.medicare.gov/what-medicare-covers/part-a/what-part-a-covers.html>

⁹ Medicare.gov. “When can I sign up for Medicare?” <https://www.medicare.gov/basics/get-started-with-medicare/sign-up/when-can-i-sign-up-for-medicare>

friends, and causes so they can qualify for Medicaid when they need it. However, to prevent this exact scenario, Uncle Sam has implemented the look-back period. Currently, if you enroll in Medicaid, you are subject to having the government scrutinize the last five years of your finances for large gifts or expenses that may subject you to penalties, temporarily making you ineligible for Medicaid coverage.

So, if you're planning to preserve your money for future generations and retain control of your financial resources during your lifetime, you'll probably want to prepare for the costs of longevity beyond a "government plan."

Self-Funding

One way to fund a longer life is the old-fashioned way, through self-funding. There are a variety of financial tools you can use, and they all have their pros and cons. If your assets are in low-interest financial vehicles (savings, bonds, CDs), you risk letting inflation erode the value of your dollar. Or, if you are relying on the stock market, you have more growth potential, but you'll also want to consider the possible implications of market volatility. What if your assets take a hit? If you suffer a loss in your retirement portfolio in early or mid-retirement, you might have the option to "tighten your belt," so to speak, and cut back on discretionary spending to allow your portfolio the room to bounce back. But, if you are retired and depend on income from a stock account that just hit a downward stride, what are you going to do?

HSA's

These days, you might also be able to self-fund through a health savings account, or HSA, if you have access to one through a high-deductible health plan (you will not qualify to save in an HSA after enrolling in Medicare). In an HSA, any growth of your tax-deductible contributions will be tax-free, and any distributions paid out for qualified health costs are also tax-free. Long-term care expenses count as health costs, so, if this

is an option available to you, it is one way to use the tax advantages to self-fund your longevity. Bear in mind, if you are younger than sixty-five, any money you use for nonqualified expenses will be subject to taxes and penalties, and, if you are older than sixty-five, any HSA money you use for non-medical expenses is subject to income tax.

LTCI

One slightly more nuanced way to pay for longevity, specifically for long-term care, is long-term care insurance, or LTCI. As car insurance protects your assets in case of a car accident and home insurance protects your assets in case something happens to your house, long-term care insurance aims to protect your assets in case you need long-term care in an at-home or nursing home situation.

As with other types of insurance, you will pay a monthly or annual premium in exchange for an insurance company paying for long-term care down the road. Typically, policies cover two to three years of care, which is adequate for an “average” situation: it’s estimated 70 percent of Americans will need about three years of long-term care of some kind.

Now, there are a few oft-cited components of LTCI that make it unattractive for some:

- Expense — LTCI can be expensive. It is generally less expensive the younger you are, but a sixty-five-year-old couple who purchased LTCI in 2022 could expect to pay a combined amount of \$3,750 each year for an average three-year coverage policy. And the annual cost only increases from there the older you are.¹⁰
- Limited options — Let’s face it: LTCI may be expensive for consumers, but it can also be expensive for companies that offer it. With fewer companies willing to

¹⁰ American Association for Long-Term Care Insurance. 2023. . “Long-Term Care Insurance Facts – Data – Statistics – 2022 Reports” <https://www.aaltci.org/long-term-care-insurance/learning-center/lctfacts-2022.php#2022costs-65>

take on that expense, this narrows the market, meaning opportunities to price shop for policies with different options or custom benefits are limited.

- If you know you need it, you might not be able to get it — Insurance companies offering LTCI are taking on a risk that you may need LTCI. That risk is the foundation of the product—you may or may not need it. If you know you will need it because you have a dementia diagnosis or another illness for which you will need long-term care, you will likely not qualify for LTCI coverage.
- Use it or lose it—If you have LTCI and are in the minority of Americans who die having never needed long-term care, all the money you paid into your LTCI policy is gone.
- Possibly fluctuating rates—Your rate is not locked in on LTCI. Companies maintain the ability to raise or lower your premium amounts. This means some seniors face an ultimatum: Keep funding a policy at what might be a less affordable rate *or* lose coverage and let go of all the money they paid in so far.

After that, you might be thinking, “How can people possibly be interested in LTCI?” But let me repeat myself—as many as 70 percent of Americans will need long-term care. And, although only one in ten Americans aged fifty-five-plus have purchased LTCI, keep in mind the high cost of nursing home care. Can you afford \$7,000 a month to put into nursing home care and still have enough left over to protect your legacy? This is a very real concern considering one set of statistics reported a two-in-three chance that a senior citizen will become physically or cognitively impaired in their lifetime.¹¹ So, not to sound like a broken record, but it is vitally important to have a plan in place to deal with longevity and long-term care if you intend to leave a financial legacy.

¹¹ [payingforseniorcare.com](https://www.payingforseniorcare.com/statistics). 2022. “Long-Term Senior Care Statistics” <https://www.payingforseniorcare.com/statistics>

That being said, in many cases I do not recommend traditional LTCI. Given the typical expense of these policies and the fact they don't in any way refund you for money paid, I find good planning with your assets and circumstances in mind can often remove the need to invest in this kind of insurance. My biggest concern with LTCI, though, is premiums are not guaranteed. And, quite frankly, in my experience, in my opinion, the insurance companies aren't always working for the benefit of the client when they design these products . . .

Product Riders

LTCI and self-funding are not the only ways to plan for the expenses of longevity. Some companies are getting creative with their products, particularly insurance companies. One way they are retooling to meet people's needs is through optional product riders on annuities and life insurance. Elsewhere in this book, I talk about annuity basics, but here's a brief overview: Annuities are insurance contracts. You pay the insurance company a premium, either as a lump sum or as a series of payments over a set amount of time, in exchange for guaranteed income payments. One of the advantages of an annuity is it has access to riders, which allow you to tweak your contract for a fee, usually about 1 percent of the contract value annually. One annuity rider some companies offer is a long-term care rider. If you have an annuity with a long-term care rider and are not in need of long-term care, your contract behaves as any annuity contract would—nothing changes. Generally speaking, if you reach a point when you can't perform multiple functions of daily life on your own, you notify the insurance company, and a representative will turn on those provisions of your contract.

Like LTCI, different companies and products offer different options. Some annuity long-term care riders offer coverage of two years in a nursing home situation. Others cap expenses at two times the original annuity's value. It greatly depends. Some people prefer this option because there isn't a "use-it-or-lose-it" piece; if you die without ever having needed long-term care,

you still will have had the income benefit from the base contract. Still, as with any annuities or insurance contracts, there are the usual restrictions and limitations. Withdrawing money from the contract will affect future income payments, early distributions can result in a penalty, income taxes may apply, and, because the insurance company's solvency is what guarantees your payments, it's important to do your research about the insurance company you are considering purchasing a contract from.

Understandably, a discussion on long-term care is bound to feel at least a little tedious. Yet, this is a critical piece of planning for income in retirement, particularly if you want to leave a legacy.

Understanding the details of long-term care and planning ahead can save you and your loved ones from a lot of future pain and headaches. One couple I worked with learned this the hard way. The husband was not one for planning. Late in life, he was diagnosed with cancer and eventually had to go to a long-term care facility. Because he had not planned for something like this with his wife and kids, he left them vulnerable to a bad LTCI purchase. Sadly, the husband's condition deteriorated, and he passed away soon after having been admitted to the long-term care facility. To add insult to injury, poor planning and a bad purchase cost the family a significant amount of money. Thankfully, after this experience, his wife began to plan more carefully to preserve what remained of their assets.

Spousal Planning

Here's one thing to keep in mind no matter how you plan to save: Many of us will be planning for more than ourselves. Look back at all the stats on health events and the likelihood of long life and long-term care. If they hold true for a single individual, then the likelihood of having a costly health or long-term care event is even higher for a married couple. You'll be planning for not just one life, but two. So, when it comes to long-term care

insurance, annuities, self-funding, or whatever strategy you are looking at using, be sure you are funding longevity for the both of you.

Longevity is one of the key issues I look at when I'm working with a married couple. Imagine you live to be seventy-eight, but your spouse lives to be ninety. That's twelve years of expenses he or she has to cover without you. I find carefully planning to help maximize Social Security benefits can help if ever a situation like this should present itself. But, no matter what you as a couple will face in the future, you can prepare for your unique needs with the right plan.

Taxes

Where to begin with taxes? Perhaps by acknowledging we all bear responsibility for the resources we share. Roads, bridges, schools . . . It is the patriotic duty of every American to pay their fair share of taxes. Many would agree with me, though, while they don't mind paying their fair share, they're not interested in paying one cent more than that!

Now, just talking taxes probably takes your mind to April—tax season. You are probably thinking about all the forms you collect and how you file. Perhaps you are thinking about your certified public accountant or another qualified tax professional and saying to yourself, “I've already got taxes taken care of, thanks!”

However, what I see when people come into my office is that their relationship with their tax professional is purely a January through April relationship. That means they may have a tax professional, but not a tax *planner*.

What I mean is tax planning extends beyond filing taxes. In April, we are required to settle our accounts with the IRS to make sure we have paid up on our bill or to even the score if we have overpaid. But real tax planning is about making each financial move in a way that allows you to keep the most money in your pocket and out of Uncle Sam's.

Now, as a caveat, I want to emphasize I am neither a CPA nor a tax planner, but I see the way taxes affect my clients, and I have plenty of experience helping clients implement tax-

efficient strategies in their retirement plans in conjunction with their tax professionals.

Just like most people, when trying to understand something outside my field of expertise, I like to consult a professional. In my work as a financial advisor, I have many times consulted tax professionals. This helps me help my clients to plan for retirement effectively, given their individual circumstances. When you can sit down with the collaborative expertise of two professionals, it's easier to find what the right options are for you.

It is especially important to me to help my clients develop tax-efficient strategies in their retirement plans because each dollar they can keep in their pockets is a dollar we can put to work.

The Fed

Now, in the United States, taxes can be a rather uncertain proposition. Depending on who is in the White House and which party controls Congress, we might be tempted to assume tax rates could either decline or increase in the next four to eight years accordingly. However, there is one (large!) factor we, as a nation, must confront: the national debt.

Currently, according to USDebtClock.org, we are over \$31,000,000,000,000 in debt and climbing. That's \$31 *trillion* with a "T." With just \$1 trillion, you could park it in the bank at a zero percent interest rate and spend more than \$54 million every day for fifty years without hitting a zero balance.

Even if Congress got a handle and stopped that debt from its daily compound, divided by each taxpayer, we each would owe about \$246,000. So, will that be check, cash, or Venmo?¹²

Even if Congress got a handle and stopped that debt from its daily compound, divided by each taxpayer, we each would owe about \$214,000. So, will that be check or cash?

¹² usdebtclock.org.

My point here isn't to give you anxiety. I'm just cautioning you that even with the rosiest of outlooks on our personal income tax rates, none of us should count on low tax rates for the long term. Instead, you and your network of professionals (tax, legal, and financial) should constantly be looking for ways to take advantage of tax-saving opportunities as they come. After all, the best "luck" is when proper planning meets opportunity.

So, How Can We Get Started?: Know Your Limits

One of the foundational pieces of tax planning is knowing what tax bracket you are in, based on your income after subtracting pre-tax or untaxed assets. Your income taxes are based on your taxable income.

One reason to know your taxable income and your income tax rate is so you can see how far away you are from the next lower or higher tax bracket. This is particularly important when it comes to decisions such as gifting and Roth IRA rollovers.

For instance, when confronting the 2022 federal income tax return they filed in 2023, Mallory and Ralph's taxable income is just over \$345,000, putting them in the 32 percent tax bracket and about \$4,900 above the upper end of the 24 percent tax bracket. They have already maxed out their retirement funds' tax-exempt contributions for the year. Their daughter, Gloria, is a sophomore in college. This couple could shave a considerable amount off their tax bill if they use the \$4,900 to help Gloria out with groceries and school—something they were likely to do, anyway, but now can deliberately be put to work for them in their overall financial strategy.

Now, I use Mallory and Ralph only as an example—your circumstances are probably different—but I think this nicely

illustrates the way planning ahead for taxes can save you money.

Assuming a Lower Tax Rate

Many people anticipate being in a lower tax bracket in retirement. It makes sense: You won't be contributing to retirement funds; you'll be drawing from them. And, you won't have all those work expenses—work clothes, transportation, etc.

Yet, do you really plan on changing your lifestyle after retirement? Do you plan to cut down on the number of times you eat out, scale back vacations, and skimp on travel?

What I see in my office is many couples spend more in the first few years, or maybe the first decade, of retirement. Sure, that may taper off later on, but usually only just in time for their budget to be hit with greater health and long-term care expenses. Do you see where this is going? Many people plan as though their taxable income will be lower in retirement and are surprised when the tax bills come in and look more or less the same as they used to. It's better to plan for the worst and hope for the best, wouldn't you agree?

401(k)/IRA

One sometimes-unexpected piece of tax planning in retirement concerns your 401(k) or IRA. Most of us have one of these accounts or an equivalent. Throughout our working lives, we pay in, dutifully socking away a portion of our earnings in these tax-deferred accounts. There's the rub: tax-deferred. Not tax-free. Very rarely is anything free of taxation when you get down to it. Using 401(k)s and IRAs in retirement is no different. The taxes the government deferred when you were in your working years are now coming due, and you will pay taxes on that income at whatever your current tax rate is.

Just to ensure Uncle Sam gets his due, the government also has a required minimum distribution, or RMD, rule. Beginning at age seventy-three, you are required to withdraw a certain minimum amount every year from your 401(k) or IRA, or else you will face a tax penalty on any RMD monies you should have withdrawn but didn't—and that's on top of income tax. The SECURE Act 2.0 reduced the penalty to 25 percent (from 50 percent). Timely corrections also can reduce the penalty to 10 percent.¹³

Of course, there is also the Roth account. You can think of the difference between a Roth and a traditional retirement account as the difference between taxing the seed and taxing the harvest. Because Roths are funded with post-tax dollars, there aren't tax penalties for early withdrawals of the principal nor are there taxes on the growth after you reach age fifty-nine-and-one-half. Perhaps best of all, there are no RMDs. Of course, you must own a Roth account for a minimum of five years before you are able to take advantage of all its features.

This is one more area where it pays to be aware of your tax bracket. Some people may find it advantageous to "convert" their traditional retirement account funds to Roth account funds in a year during which they are in a lower tax bracket. Others may opt to put any excess RMDs from their traditional retirement accounts into other products, like stocks or insurance.

Does that make your head spin? Understandable. That's why it's so important to work with a financial professional and tax planner who can help you execute these sorts of tax-efficient strategies and help you understand what you are doing and why.

Putting a team together to look at longevity, your tax situation, and all the other factors that might play into your plan is all part of the process.

¹³ Jim Probasco. Investopedia.com. January 6, 2023. "SECURE 2.0 Act of 2022." <https://www.investopedia.com/secure-2-0-definition-5225115>

Market Volatility

Up and down. Roller coaster. Merry-go-round. Bulls and bears. Peak-to-trough.

Sound familiar? This is the language we use to talk about the stock market. With volatility and spikes, even our language is jarring, bracing, and vivid.

Still, financial strategies tend to revolve around market-based products, for good reasons. For one thing, there is no other financial class that packs the same potential for growth, pound for pound, as stock-based products. Because of growth potential, inflation protection, and new opportunities, it may be unwise to avoid the market entirely.

However, along with the potential for growth is the potential for loss. At the time this book was written, many of the people I've seen in my office came in feeling uneasy because of the economic fallout of the COVID-19 outbreak of 2020, followed by the economic downturn, and the inflation spike that happened in 2022.

So how do we balance these factors? How do we try to satisfy both the need for protection and the need for growth?

For one thing, it is important to recognize the value of diversity. Now, I'm not just talking about the diversity of assets among different kinds of stocks, or even different kinds of stocks and bonds. That's only one kind of diversity; while important, both stocks and bonds, though different, are both still market-based products. Most market-based products, even within a diverse portfolio, tend to rise or lower as a whole, just

like an incoming tide. Therefore, a portfolio diverse in only market-sourced products won't automatically protect your assets during times when the market declines.

In addition to the sort of "horizontal diversity" you have by purchasing a variety of stocks and bonds from different companies, I encourage having "vertical diversity," or diversity among asset classes. This means having different product types, including securities products, bank products, and insurance products—with varying levels of growth potential, liquidity, and protection—all in accordance with your unique situation, goals, and needs.

Focusing too much on growth can be dangerous. It can lead you to sacrifice diversity and make bad investment decisions. Often, the more responsible strategies of retirement focus more on keeping what you've got and attempting to ensure your investments and other assets outperform the level of inflation, at the very least.

When you have the right level of diversity for your situation, no matter how volatile the market becomes in the future, you'll benefit. Creating this diversity may require you to rebalance your portfolio of products, but it's well worth your effort. Maintaining a good portfolio will help make your assets work together despite an ever-changing market.

The Color of Money

When you're looking at the overall diversity of your portfolio, part of the equation is knowing which products fit in what category: what has liquidity, what has protection, and what has growth potential.

Before we dive in, keep in mind these aren't absolutes. You might think of liquidity, growth, and protection as primary colors. While some products will look pretty much yellow, red, or blue, others will have a mix of characteristics, making them more green, orange, or purple.

Growth

I like to think of the growth category as red. It's powerful, it's somewhat volatile, and it's also the category where we have the greatest opportunities for growth and loss. Often, products in the growth category will have a good deal of liquidity but very little protection. These are our market-based products and strategies, and we think of them mostly in shades of red and orange, to designate their growth and liquidity. This is a good place to be when you're young—think fast cars and flashy leather jackets—but its allure often wanes as you move closer to retirement. Examples of “red” products include:

- Stocks
- Equities
- Exchange-traded funds
- Mutual funds
- Corporate bonds
- Real estate investment trusts
- Speculations
- Alternative investments

Liquidity

Yellow is my liquid category color. I typically recommend having at least enough yellow money to cover six months' to a year's worth of expenses in case of emergency. Yellow assets don't need a lot of growth potential; they just need to be readily available when we need them. The “yellow” category includes:

- Cash
- Money market accounts

Protection

The color of protection, to me, is blue. Tranquil, peaceful, sure, even if it lacks a certain amount of flash. This is the direction I like to see people generally move toward as they're nearing retirement. The red, flashy look of stock market returns and the

risk of possible overnight losses is less attractive as we near retirement and look for more consistency and reliability. While this category doesn't come with a lot of liquidity, the products here are backed by an insurance company, a bank, or a government entity. "Blue" products include:

- Certificates of deposit (backed by banks)
- Government-based bonds (backed by the U.S. government)
- Life insurance (backed by insurance companies)
- Annuities (backed by insurance companies)

When I look at market-based products, I generally encourage people to strive for variety. I usually advise a combination of stocks, bonds, and mutual funds—and maybe some real estate investments and government securities, as appropriate to the individual client. As the phrase goes, don't put all your eggs in one basket. And while diversification can't ensure a profit or that you won't lose money, using a variety of well-chosen market-based products can help reduce your overall market risk.

401(k)s

I want to take a second to specifically address a product many retirees will be using to build their retirement income: the 401(k) and other retirement accounts. Any of these retirement accounts (IRAs, 401(k)s, 403(b)s, etc.) are basically "tax wrappers." What do I mean by that? Well, depending on your plan provider, a 401(k) could include target-date funds, passively managed products, stocks, bonds, mutual funds, or even variable, fixed, and fixed index annuities, all collected in one place and governed by rules (a.k.a. the "tax wrapper"). These rules govern how much money you can put inside, what ways you can put it in, when you will pay taxes on it, and when you can take the money out. Inside the 401(k), each of the products inside the "tax wrapper" might have its own fees or

commissions, in addition to the management fee you pay on the 401(k) itself.

Now, fees can be troublesome. You can't get something for nothing, and fees are how many financial companies and professionals make a living. Yet, it's important to recognize even a fee with a fraction of a percentage point is money out of your pocket—money that represents not just the one-time fee of today but also represents an opportunity cost. A \$100,000 IRA that earns 6 percent over a twenty-five-year period without investment fees would earn \$430,000. But if just a 0.5 percent fee got factored into that investment, the IRA would be worth \$379,000 in twenty-five years, a \$50,500 decrease.¹⁴ For someone close to retirement, how much do you think fees may have cost over their lifetime?

Even for those close to retirement, it's important to look at management fees and assess if you think you're getting what you pay for. Over the course of ten years, those costs can add up, and you may have decades ahead of you in which you will need to rely on your assets.

Dollar-Cost Averaging

With 401(k)s and other market-based retirement products, when you are investing for the long term, dollar-cost averaging is a concept that can work in your favor. When the market is trending up, if you are consistently paying in money, month over month, great; your investments can grow, and you are adding to your assets. When the market takes a dip, no problem; your dollars buy more shares at a lower price. At some point, we hope the market will rebound, in which case your shares can grow and possibly be more valuable than they were before. This concept is what we call dollar-cost averaging.

¹⁴ Pam Krueger. Kiplinger.com. January 8, 2021. "How to Spot (and Squash) Nasty Fees That Hide in Your Investments" <https://www.kiplinger.com/retirement/retirement-planning/602043/how-to-spot-and-squash-nasty-fees-that-hide-in-your>

While it can't ensure a profit or guarantee against losses, it's a time-tested strategy for investing in a volatile market.

However, when you are in retirement, this strategy may work against you. You may have heard of "reverse" dollar-cost averaging. Before, when the market lost ground, you were "bargain-shopping"; your dollars purchased more assets at a reduced price. When you are in retirement, you are no longer the purchaser; you are selling. So, in a down market, you have to sell more assets to make the same amount of money as what you made in a favorable market.

I've had lots of people step into my office to talk to me about this, emphasizing, "My advisor says the market always bounces back, and I have to just hold on for the long term."

There's some basis for this thinking; thus far, the market has always rebounded to higher heights than before. But this is no guarantee, and the prospect of potentially higher returns in five years may not be very helpful in retirement if you are relying on the income from those returns to pay this month's electric bill, for example.

Is There a "Perfect" Product?

To bring us back around to the discussion of protection, growth, and liquidity, the ideal product would be a "ten" in all three categories, right? Completely guaranteed, doubling in size every few years, and accessible whenever you want. Does such a product exist? Absolutely not.

Instead of running in circles looking for that perfect product, the silver bullet, the unicorn of financial strategies, it's more important to circle back to the concept of a balanced, asset-diverse portfolio.

This is why your interests may be best served when you work with a trusted financial professional who knows what various financial products can do and how to use them in your personal retirement strategy.

Market volatility isn't something that's magically going to disappear. I find it effective to be open and honest with my clients about the relative risk behind any investment. At times, volatile market factors can even affect solid and conservative products. On the other hand, products considered to be "guaranteed" can be devalued by inflation. So, there is a certain balance you must strike. In my opinion, having an advisor who understands the state of our financial system is invaluable.

Retirement Income

Retirement. For many of us, it's what we've saved for and dreamed of, pinning our hopes to a magical someday. Is that someday full of traveling? Is it filled with grandkids? Gardening? Maybe your fondest dream is simply never having to work again, never having to clock in or be accountable to someone else.

Your ability to do these things all hinges on *income*. Without the money to support these dreams, even a basic level of work-free lifestyle is unsustainable. That's why planning for your income in retirement is so foundational. But where do we begin?

It's easy to feel overwhelmed by this question. Some may feel the urge to amass a large lump sum and then try to put it all in one product—insurance, investments, liquid assets—to provide all the growth, liquidity, and income they need. Instead, I think you need a more balanced approach. After all, retirement planning isn't magic. Like I mention elsewhere, there is no single product that can be all things to all people (or even all things to one person). No approach works unilaterally for everyone. That's why it's important to talk to a financial professional who can help you lay down the basics and take you step-by-step through the planning process. Not only will you have the assurance you have addressed the areas you need to, but you will also have an ally who can help you break down the process and help keep you from feeling overwhelmed.

Sources of Income

Thinking of all the pieces of your retirement expenses might be intimidating. But, like cleaning out a junk drawer or revisiting that garage remodel, once you have laid everything out, you can begin to sort things into categories.

Once you have a good overall picture of where your expenses will lie, you can start stacking up the resources to cover them.

Social Security

Social Security is a guaranteed, inflation-protected federal insurance program playing a significant part in most of our retirement plans. From delaying until you've reached full retirement age (or beyond) to examining spousal benefits, as I discuss elsewhere in this book, there is plenty you can do to try to make the most of this monthly benefit. As with all your retirement income sources, it's important to consider how to make this resource stretch to provide the most bang and buck for your situation.

Pension

Another generally reliable source of retirement income for you might be a pension, if you are one of the lucky people who still has one.

If you don't have a pension, go ahead and skim on to the next section. If you do have a pension, keep on reading.

Because your pension can be such a central piece of your retirement income plan, you will want to put some thought into answering basic questions about it.

How well is your pension funded? Since the heyday of the pension plan, companies and governments have neglected to fund their pension obligations, causing a persistent problem with this otherwise reliable asset.

Consider the factors at play, though. Pensions had been underfunded and gained a boost from strong market performance in 2021. What happens to the solvency of those pension funds if the market declines?

It can be worthwhile to keep tabs on your pension's health and know what your options are for withdrawing your pension. If you have already retired and made those decisions, this may be a foregone conclusion. If not, it pays to know what you can expect and what decisions you can make, such as taking spousal options to cover your husband or wife if he or she outlives you.

Also, some companies are incentivizing lump-sum payouts of pensions to reduce the companies' payment liabilities. If that's the case with your employer, talk to your financial professional to see if it might be prudent to do something like that or if it might be better to stick with lifetime payments or other options.

Your 401(k) and IRA

One “modern way” to save for retirement is in a 401(k) or IRA (or their nonprofit or governmental equivalents). These tax-advantaged accounts are, in my opinion, a poor substitute for pensions, but one of the biggest disservices we do to ourselves is to not take full advantage of them in the first place. According to The Economics Daily, only 51 percent of Americans in private industry choose to invest in retirement benefits plans offered by their employers, though 68 percent of those employers offer plans.¹⁵

Also, if you have changed jobs over the years, do the work of tracking down any benefits from your past employers. You might have an IRA here or a 401(k) there; keep track of those so you can pull them together and look at those assets when

¹⁵ The Economics Daily. November 1, 2021. “68 percent of private industry workers had access to retirement plans in 2021” <https://www.bls.gov/opub/ted/2021/68-percent-of-private-industry-workers-had-access-to-retirement-plans-in-2021.htm#>.

you're ready to look at establishing sources of retirement income.

Do You Have...

- Life insurance?
- Annuities?
- Long-term care insurance?
- Any passive income sources?
- Stock and bond portfolios?
- Liquid assets? (What's in your bank account?)
- Alternative investments?
- Rental properties?

If you are going through the work of sitting with a financial professional, it's important to look at your full retirement income picture and pull together *all* your assets, no matter how big or small. From the free insurance policy offered at your bank to the sizable investment in your brother-in-law's modestly successful furniture store, you want to have a good idea of where your money is.

This part of the retirement planning process is a big deal. In my firm, probably by the end of the first meeting or the beginning of the second meeting, I sit down with clients and take an inventory of what they already have. Most people have never really added it up or seen what's in their portfolio. The software I use gives me the tools I need to accurately estimate what their income will be within a certain variability.

People often look at me and say, "Oh my God, this is exactly what I've been looking for." It always amazes me to see how grateful people are to actually look at their portfolio and understand where their money is and where their income will come from when they retire.

Retirement Income Needs

How much income will you need in retirement? How do you determine that? A lot of people work toward a random number, thinking, “If I can just have a million dollars, I’ll be comfortable in retirement!” Don’t get me wrong; it is possible to save up a lot of money and then retire in the hopes you can keep your monthly expenses lower than some set estimation. But I think this carries a general risk of running out of money. Instead, I work with my clients to find out what their current and projected income needs are and then work from there to see how we might cover any gaps between what they have and what they want.

Goals and Dreams

I like to start with your pie in the sky. Do you find yourself planning for your vacations more thoroughly than you do your retirement? It’s not uncommon for Americans to spend more time planning our vacations than we spend planning our retirements. Maybe it’s because planning a vacation is less stressful: Having a week at the beach go awry is, well, a walk on the beach compared to running out of money in retirement. Whatever the case, perhaps it would be better if you thought of your retirement as a vacation in and of itself—no clocking in, no boss, no overtime. If you felt unlimited by financial strain, what would you do?

Would an endless vacation for you mean Paris and Rome? Would it mean mentoring at children’s clubs or serving at the local soup kitchen? Or maybe it would mean deepening your ties to those immediately around you—neighbors, friends, and family. Maybe it would mean more time to take part in the hobbies and activities you love. Have you been considering a second (or even third) act as a small-business owner, turning a hobby or passion into a revenue source?

This is your time to daydream and answer the question: If you could do anything, what would you do?

After that, it's a matter of putting a dollar amount on it. What are the costs of round-the-world travel? One couple I know said their highest priority in retirement was being able to take each of their grandchildren on a cross-country vacation every year. That's a pretty specific goal—one that is reasonably easy to nail down a budget for.

Current Budget

Compiling a current expense report is one of the trickiest pieces of retirement preparation. Many people assume the expenses of their lives in retirement will be different—lower. After all, there will be no drive to work, no need for a formal wardrobe, and, perhaps most impactful of all, no more saving for retirement!

Yet, we often underestimate our daily spending habits. That's why I typically ask my clients to bring in their bank statements for the past year—they are reflective of your *actual* spending, not just what you think you're spending.

I urge my clients to plan for every expense now, so they won't have to worry about it later. While it's true there are certain things you won't have to pay for when you retire, think about all the things you *will* have to pay for. And, be honest. Will you still have a mortgage? Will you want to travel more? When you don't have to work, will you be spending more time golfing, eating out, etc.? It's important to think of everything and add it all up honestly.

I can't count the number of times I have sat with a couple, asked them about their spending, and heard them throw out a number that seemed incredibly low. When I ask them where the number came from, they usually say they estimated based on their total bills. Yet, our spending is so much more than our mortgage, utilities, cable, phone, car, grocery, or credit card bills.

“What about clothes?” I ask, “Or dining out? What about gifts and coffees and last-minute birthday cards?” That’s when the lights come on.

This is why I suggest collecting a year’s worth of information. There is usually no such thing as a one-time purchase. Did you buy new furniture? Even if that is a rarity, do you think that will be the last time you *ever* buy furniture?

Another hefty expense is spending on the kids. Many of the couples I work with are quick to help their adult children, whether it’s something like letting them live in the basement, paying for college, babysitting, paying an occasional bill, or contributing to a grandchild’s college fund. Research concluded that 22 percent of adults receive some kind of financial support from parents. That segment jumps to almost 30 percent when factoring the generation we call millennials.¹⁶

My clients sometimes protest that what they do for their grown children can stop in retirement. They don’t *need* to help. But I get it. Parents like to feel needed. And, while you never want to neglect saving for retirement in favor of taking on financial risks (like your child’s student debt), the parents who help their adult children do so in part because it helps them feel fulfilled.

When it comes down to expenses, including (and especially) spending on your family, don’t make your initial calculations based on what you *could* whittle your budget down to if you *had* to. Instead, start from where you are. Who wants to live off a bare-bones bank account in retirement?

Other Expenses

Once you have nailed down your current budget and your dreams or goals for retirement, there are a few other

¹⁶ Kamaron McNair. magnifymoney.com. October 26, 2021. “Nearly 30% of Millennials Still Receive Financial Support From Their Parents” <https://www.magnifymoney.com/blog/news/parental-financial-support-survey/>

outstanding pieces to think about—some expenses many people don't take the time to consider before making and executing a plan. But I'm assuming you want to get it right, so let's take a look.

Housing

Do you know where you want to live in retirement? This makes up a substantial piece of your income puzzle—since the typical American household owns a home, and it's generally their largest asset.

Some people prefer to live right where they are for as long as they can. Others have been waiting for retirement to pull the trigger on an ambitious move, like purchasing a new house, or even downsizing. Whatever your plans and whatever your reasons, there are quite a few things to consider.

Mortgage

Do you still have a mortgage? What may have been a nice tax boon in your working years could turn into a financial burden in your retirement. After all, when you are on a limited income, a mortgage is just one more bill sapping your financial strength. It is something to put some thought into, whether you plan to age in place or are considering moving to your dream home, buying a house out of state, or living in a retirement community.

Upkeep and Taxes

A house without a mortgage still requires annual taxes. While it's tempting to think of this as a once-a-year expense, when you have limited earning potential, your annual tax bill might be something into which you should put a little more forethought.

The costs of homeownership aren't just monetary. When you find yourself dealing with more house than you need, it can drain your time and energy. From keeping clutter at bay to keeping the lawn mower running, upkeep can be extensive and

expensive. For some, that's a challenge they heartily accept and can comfortably take on. For others, the idea of yard work or cleaning an area larger than they need feels foolish.

For instance, Peggy discovered after her knee replacement that most of her house was inaccessible to her when she was laid up.

"It felt ridiculous to pay someone else to dust and vacuum a house I was only living in 40 percent of!"

Practicality and Adaptability

Erik and Magda are looking to retire within the next two decades. They just sold their old three-bedroom ranch-style house. Their twins are in high school, and the couple has wanted to "upgrade" for years. Now they live in a gorgeous 1940s three-story house with all the kitchen space they ever wanted, five sprawling bedrooms, and a library and media room for themselves and their children. Within months of moving in, the couple realized a house perfect for their active teens would no longer be perfect for them in five to fifteen years.

"We are paying the mortgage for this house, but we've started saving for the next one," said Magda, "because who wants to climb two flights of stairs to their bedroom when they're seventy-eight?"

Others I know have encountered a similar situation in their personal lives. After a health crisis, one couple found the luxurious tub for two they toiled to install had become a specter of a bad slip and a potential safety risk. It's important to think through what your physical reality could be. I always emphasize to my clients that they should plan for whatever their long-term future might hold, but it's amazing how many people don't give it much thought.

Contracts and Regulations

If you are looking into a cross-country move, be aware of new tax tables or local ordinances in the area where you are looking

to move. After all, you don't want to experience sticker-shock when you are looking at downsizing or reducing your bills in retirement.

Along the same lines, if you are moving into a retirement community, be sure to look at the fine print. What happens if you must move into a different situation for long-term care? Will you be penalized? Will you be responsible for replacing your slot in the community? What are all the fees, and what do they cover?

Inflation

Beginning in 2022 and stretching into 2023, America has experienced a wave of inflation following a lengthy period of low inflation. Inflation zoomed to 9.1 percent in June 2022, its highest mark since November 1981.¹⁷

Core inflation is yet another measurement that excludes goods with prices that tend to be more volatile, such as food and energy costs. Core inflation for a 12-month period ending in December 2022 was 5.7 percent. It so happened energy prices rose 7.3 percent over that timeframe.¹⁸

However, inflation isn't a one-time bump; it has a cumulative effect. Again, that can impact the price of groceries greater than other goods. Even with relatively low inflation over the past few decades, an item you bought in 1997 for two dollars will cost about \$3.70 today.¹⁹ Want to go to a show? A \$20 ticket in 1997 would cost \$41.24 in 2023.²⁰

¹⁷ tradingeconomics.com. 2022 Data/2023 Forecast/1914-2021 Historical. "United States Inflation Rate" <https://tradingeconomics.com/united-states/inflation-cpi>

¹⁸ U.S. Inflation Calculator. "United States Core Inflation Rates (1957-2022)" <https://www.usinflationcalculator.com/inflation/united-states-core-inflation-rates/>

¹⁹ In2013dollars.com. "\$2 in 1997 is worth \$3.70 today" <https://www.in2013dollars.com/us/inflation/1997?amount=2>

²⁰ In2013dollars.com "Admission to movies, theaters, and concerts priced at \$20 in 1997>\$40.34 in 2022" <https://www.in2013dollars.com/Admission-to-movies,-theaters,-and-concerts/price-inflation>

What if, in retirement, we hit a stretch like the late seventies and early eighties, when annual inflation rates of 10 percent became the norm? It may be wise to consider some extra padding in your retirement income plan to account for any potential increase in inflation in the future.

Aging

Also, in the expense category, think about longevity. We all hope to age gracefully. However, it's important to face the prospect of aging with a sense of realism.

The elephant in the room for many families is long-term care: No one wants to admit they will likely need it, but estimates say as many as 70 percent of us will.²¹ Aging is a significant piece of retirement income planning because you'll want to figure out how to set aside money for your care, either at home or away from it. The more comfortable you get with discussing your wishes and plans with your loved ones, the easier planning for the financial side of it can be.

I discuss health care and potential long-term care costs in more detail elsewhere in this book, but, suffice it to say, nursing home care tends to be very expensive and typically isn't something you get to choose when you will need.

It isn't just the costs of long-term care that pose a concern in living longer. It's also about covering the possible costs of everything else associated with living longer. For instance, if Henry retires from his job as a biochemical engineer at age sixty-five, perhaps he planned to have a very decent income for twenty years, until age eighty-five. But what if he lives until he's ninety-five? That's a whole third—ten years—more of personal income he will need.

²¹ Moll Law Group. 2021. "The Cost of Long-Term Care."
<https://www.molllawgroup.com/the-cost-of-long-term-care.html>

Putting It All Together

Whew! So, you have pulled together what you have, and you have a pretty good idea of where you want to be. Now your financial professional and you can go about the work of arranging what assets you *have* to cover what you *need*—and how you might try to cover any gaps.

Like the proverbial man in the Bible who built his house on a rock, I like to help my clients figure out how to cover their day-to-day living expenses—their needs—with insurance and other guaranteed income sources like pensions and Social Security.

When assessing whether or not my clients are ready for retirement, I first look at the amount of money they have saved. I then try to learn more about them on a personal level by asking a lot of questions. I ask them about health issues, longevity in their family, and traveling during retirement. That's when we put together the budget. When I look at their lifestyle, their fixed expenses, their paychecks, and a few other factors, it quickly becomes apparent whether or not an individual or a couple is in the right position to retire.

However, in making these assessments, I find, for many of my clients, the issue isn't so much if they have enough but more about how they can structure what they *do* have to preserve their estate. They want to leave enough for their surviving spouse and to leave a legacy for their children.

Again, you should keep in mind there isn't one single financial vehicle, asset, or source to fill all your needs, and that's okay. One of the challenges of planning for your income in retirement concerns figuring out what products and strategies to use. You can release some of that stress when you accept the fact you will probably need a diverse portfolio—potentially with bonds, stocks, insurance, and other income sources—not just one massive money pile.

One way to help shore up your income gaps is by working with your financial professional and a qualified tax advisor to mitigate your tax exposure. If you have a 401(k) or IRA, a tax

advisor in your corner can help you figure out how and when to take distributions from your account in a way that doesn't push you into a higher tax bracket. Or you might learn how to use tax-advantaged bonds more effectively. Effective tax planning isn't necessarily about "adding" to your income. Especially regarding retirement, it's less about what you make than it is about what you keep. Paying a lower tax bill keeps more money in your pocket, which is where you want it when it comes to retirement income.

Now you can look at ways to cover your remaining retirement goals. Are there products like long-term care insurance specific to a certain kind of expense you anticipate? Is there a particular asset you want to use for your "play" money—money for trips and gifts for the grandkids? Is there any way you can portion off money for those charitable legacy plans?

Once you have analyzed your income wants, needs, and the assets to realistically cover them, you may have a gap. The masterstroke of a competent financial professional will be to help you figure out how you will cover that gap. Will you need to cut out a round of golf a week? Maybe skip the new car? Or will you need to take more substantial action?

One way to cover an income gap is to consider working longer or even part-time before retirement and even after that magical calendar date. This may not be the best "plan" for you; disabilities, work demands, and physical or emotional limitations can hinder the best-laid plans to continue working. However, if it is physically possible for you, this is one considerable way to help your assets last, for more than one reason.

In fact, 46 percent of the Americans responding to a survey report they plan to work part-time after retiring, while 18 percent indicated they planned to work past the age of seventy.²²

²² Palash Ghosh. Forbes.com. May 6, 2021. "A Third Of Seniors Seek To Work Well Past Retirement Age, Or Won't Retire At All, Poll Finds"

All that being said, there are many who would be perfectly fine retiring outright, whether it's because of the years and strenuous effort they've put into their career or something else. And, some are surprised by how soon they can afford to retire.

I once worked with a man in the medical field who got burned out; he didn't want to work in medicine anymore. His wife, who was about ten years younger than him and working, was fine with continuing to work by herself. So, I sat down with them; I did an inventory of what they had in assets, I looked at her income, and I looked at their expenses. As it happened, they had way more than they needed for their lifestyle! They not only had enough money coming in from his retirement accounts for him to retire and live comfortably, but also enough to buy a lakefront cottage he'd always wanted.

Your circumstances and desires for retirement are unique. It is vital you make the best decisions with what you have and what you want.

When you're retired, you no longer have an employer paying you a steady check. It is up to you to make sure you have saved and planned for the income you need.

Social Security

Social Security is often the foundation of retirement income. Backed by the strength of the U.S. Treasury, it provides perhaps the most dependable paycheck you will have in retirement.

From the time you collect your first paycheck from the job that made you a bona fide taxpayer (for me, it was manning the Flying Horses carousel on Martha's Vineyard), you are paying into the grand old Social Security system. What grew and developed out of the pressures of the Great Depression has become one of the most popular government programs in the country, and, if you pay in for the equivalent of ten years or more, you, too, can benefit from the Social Security program.

Now, before we get into the nitty-gritty of Social Security, I'd like to address a current concern: Will Social Security still be there for you when you reach retirement age?

The Future of Social Security

This question is ever-present as headlines trumpet an underfunded Social Security program, alongside the sea of baby boomers retiring in droves and the comparatively smaller pool of younger people who are funding the system.

The Social Security Administration itself acknowledges this concern as each Social Security statement now contains a link

to its website (ssa.gov) and a page entitled, “Will Social Security Be There For Me?”

Just a reminder, as if you needed one, that nothing in life is guaranteed. Additionally, depending on who you’re listening to, Social Security funds may run low before 2034 thanks to the financial instability and government spending that accompanied the 2020 COVID-19 pandemic.

Before you get too discouraged, though, here are a few thoughts to keep you going:

- Even if the program is only paying 78 cents on the dollar for scheduled benefits, 78 percent is notably not zero.
- The Social Security Administration has made changes in the distant and near past to protect the fund’s solvency, including increasing retirement ages and striking certain filing strategies.
- There are many changes Congress could make, and lawmakers routinely discuss how to fix the system, such as further increasing full retirement age and eligibility.
- One thing no one is seriously discussing? Reneging on current obligations to retirees or the soon-to-retire.

Take heart. The real answer to the question, “Will Social Security be there for me?” is still yes.

This question is an important one to consider when you look at how much we, as a nation, rely on this program. Did you know Social Security benefits replace about 40 percent of a person’s original income when they retire?²³

If you ask me, that’s a pretty significant piece of your retirement income puzzle.

Another caveat? You may not realize this, but no one can legally “advise” you about your Social Security benefits.

²³ Social Security Administration. “Learn About Social Security Programs.” <https://www.ssa.gov/planners/retire/r&m6.html>

“But, Dale,” you may be thinking, “isn't that part of what you do? And what about that nice gentleman at the Social Security Administration office I spoke with on the phone?”

Don't get me wrong. Social Security Administration employees know their stuff. They are trained to know policies and programs, and they are usually pretty quick to tell you what you can and cannot do. But the government specifically says, because Social Security is a benefit you alone have paid into and earned, your Social Security decisions, too, are yours alone.

When it comes to financial professionals, we can't push you in any directions, either, *but*—there's a big but here—working with a well-informed financial professional is still incredibly handy when it comes to your Social Security decisions. Why? Because someone who's worth his or her salt will know what withdrawal strategies might pertain to your specific situation and will ask questions that can help you determine what you are looking for when it comes to your Social Security.

For instance, some people want the highest possible monthly benefit. Others want to start their benefits early, not always because of financial need. I heard about one man who called in to start his Social Security payments the day he qualified, just because he liked to think of it as the government paying back a debt it owed him, and he enjoyed the feeling of receiving a check from Uncle Sam.

Whatever your reasons, questions, or feelings regarding Social Security, the decision is yours alone; but working with a financial professional can help you put your options in perspective by showing you—both with industry knowledge and with proprietary software or planning processes—where your benefits fit into your overall strategy for retirement income.

One reason the federal government doesn't allow for “advice” related to Social Security, I suspect, is so no one can profit from giving you advice related to your Social Security benefit—or from providing any clarifications. Again, this is a sign of a good financial professional. Those who are passionate about their work will be knowledgeable about what benefit

strategies might be to your advantage and will happily share those possible options with you.

Full Retirement Age

When it comes to Social Security, it seems like many people only think so far as “yes.” They don’t take the time to understand the various options available. Instead, because it is common knowledge you can begin your benefits at age sixty-two, that’s what many of us do. While more people are opting to delay taking benefits, age sixty-two is still firmly the most popular age to start.²⁴

What many people fail to understand is, by starting benefits early, they may be leaving a lot of money on the table. You see, the Social Security Administration bases your monthly benefit on two factors: your earnings history and your full retirement age (FRA).

From your earnings history, they pull the thirty-five years you made the most money and use a mathematical indexing formula to figure out a monthly average from those years. If you paid into the system for less than thirty-five years, then every year you didn’t pay in will be counted as a zero.

Once they have calculated what your monthly earning would be at FRA, the government then calculates what to put on your check based on how close you are to FRA. FRA was originally set at sixty-five, but, as the population aged and lifespans lengthened, the government shifted FRA later and later, based on an individual’s year of birth. Check out the following chart to see when you will reach FRA.²⁵

²⁴ Chris Kissell. moneytalknews.com. January 20, 2021. “This Is When the Most People Start Taking Social Security.”

<https://www.moneytalksnews.com/the-most-popular-age-for-claiming-social-security/>

²⁵ Social Security Administration. “Full Retirement Age.”

<https://www.ssa.gov/planners/retire/retirechart.html>

Age to Receive Full Social Security Benefits*	
<i>(Called “full retirement age” [FRA] or “normal retirement age.”)</i>	
Year of Birth*	FRA
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67
<i>*If you were born on Jan. 1 of any year, you should refer to the previous year. (If you were born on the 1st of the month, we figure your benefit [and your full retirement age] as if your birthday was in the previous month.)</i>	

When you reach FRA, you are eligible to receive 100 percent of whatever the Social Security Administration says is your full monthly benefit.

Starting at age sixty-two, for every year before FRA you claim benefits, your monthly check is reduced by 5 percent or more. Conversely, for every year you delay taking benefits past FRA, your monthly benefit increases by 8 percent (until age seventy—after that, there is no monetary advantage to delaying Social Security benefits). While your circumstances and needs may vary, a lot of financial professionals still urge people to at least consider delaying until they reach age seventy.

Why wait?²⁶

Taking benefits early could affect your monthly check by ____.								
62	63	64	65	FRA 66	67	68	69	70
-25%	-20%	-13.3%	-6.7%	0	+8%	+16%	+24%	+32%

My Social Security

If you are over age thirty, you have probably received a notice from the Social Security Administration telling you to activate something called “My Social Security.” This is a handy way to learn more about your particular benefit options, to keep track of what your earnings record looks like, and to calculate the benefits you have accrued over the years.

Essentially, My Social Security is an online account you can activate to see what your personal Social Security picture looks like, which you can do at www.ssa.gov/myaccount. This can be extremely helpful when it comes to planning for income in retirement and figuring up the difference between your anticipated income versus anticipated expenses.

COLA

Social Security is a largely guaranteed piece of the retirement puzzle: If you get a statement that says to expect \$1,000 a month, you can be sure you will receive \$1,000 a month. But there is one variable detail, and that is something called the cost-of-living adjustment, or COLA.

The COLA is an increase in your monthly check meant to address inflation in everyday life. After all, your expenses will likely continue to experience inflation in retirement, but you

²⁶ Social Security Administration. April 2021. “Can You Take Your Benefits Before Full Retirement Age?”

<https://www.ssa.gov/planners/retire/applying2.html>

will no longer have the opportunity for raises, bonuses, or promotions you had when you were working. Instead, Social Security receives an annual cost-of-living increase tied to the Department of Labor’s Consumer Price Index for Urban Wage Earners and Clerical Workers, or CPI-W. If the CPI-W measurement shows inflation rose a certain amount for regular goods and services, then Social Security recipients will see that reflected in their COLA.

COLA adjustments have climbed as high as 14.3 percent (1980) and in 2023 reached 8.7 percent, the largest increase in more than forty years. But in a no- or low-inflation environment, such as in 2010, 2011, and 2016, Social Security recipients will not receive an adjustment.²⁷ Some view the COLA as a perk, bump, or bonus, but, in reality, it works more like this: Your mom sends you to the store with \$2.50 for a gallon of milk. Milk costs exactly \$2.50. The next week, you go back with that same amount, but it is now \$2.52 for a gallon, so you go back to Mom, and she gives you 2 cents. You aren’t bringing home more milk—it just costs more money.

So the COLA is less about “making more money” and more about keeping seniors’ purchasing power from eroding when inflation is a big factor, such as in 1975, when it was 8 percent!²⁸ Still, don’t let that detract from your enthusiasm about COLAs; after all, what if Mom’s solution was: “Here’s the same \$2.50; try to find pennies from somewhere else to get that milk!”?

Spousal Benefits

We’ve talked about FRA, but another big Social Security decision involves spousal benefits.

If you or your spouse has a long stretch of zeros in your earnings history—perhaps if one of you stayed home for years, caring for children or sick relatives—you may want to consider

²⁷ ssa.gov. “Cost-Of-Living Adjustments” [ssa.gov/oact/cola/colaserie.html](https://www.ssa.gov/oact/cola/colaserie.html)

²⁸ Social Security Administration. “Cost-Of-Living Adjustment (COLA) Information for 2021.” <https://www.ssa.gov/cola/>

filing for spousal benefits instead of filing on your own earnings history. A spousal benefit can be up to 50 percent of the primary wage earner's benefit at full retirement age.

To begin drawing a spousal benefit, you must be at least sixty-two years old, and the primary wage earner must have already filed for his or her benefit. While there are penalties for taking spousal benefits early, you cannot earn credits for delaying past full retirement age.²⁹

Like I said, the spousal benefit can be a big deal for those who don't have a very long pay history, but it's important to weigh your own earned benefits against the option of withdrawing based on a fraction of your spouse's benefits.

To look at how this could play out, let's use a hypothetical couple: Mary Jane, who is sixty, and Peter, who is sixty-two.

Let's say Peter's benefit at FRA, in his case sixty-seven, would be \$1,600. If Peter begins his benefits right now, four years before FRA, his monthly check will be \$1,200. If Mary Jane begins taking spousal benefits in two years at the earliest date possible, her monthly benefits will be reduced by 67.5 percent, to \$520 per month (remember, at FRA, the most she can qualify for is half of Peter's FRA benefit).

What if Peter and Mary Jane both wait until FRA? At sixty-seven, Peter begins taking his full benefit of \$1,600 a month. Two years later, when she reaches age sixty-seven, Mary Jane will qualify for \$800 a month. By waiting until FRA, the couple's monthly benefit goes from \$1,720 to \$2,400.

What if Peter delays until age seventy to get his maximum possible benefit? For each year past FRA he delays, his monthly benefits increase by 8 percent. This means, at seventy, he could file for a monthly benefit of \$2,015. However, delayed retirement credits do not affect spousal benefits, so as soon as Peter files at seventy, Mary Jane would also file (at age sixty-

²⁹ Social Security Administration. "Retirement Planner: Benefits For You As A Spouse." <https://www.ssa.gov/planners/retire/applying6.html>

eight) for her maximum benefit of \$800, so their highest possible combined monthly check is \$2,815.³⁰

When it comes to your Social Security benefits, you obviously will want to consider whether a monthly check based on a fraction of your spouse's earnings will be comparable to or larger than your own earnings history.

Divorced Spouses

There are a few considerations for those of us who have gone through a divorce. If you 1) were married for ten years or more *and* 2) have since been divorced for at least two years *and* 3) are unmarried *and* 4) your ex-spouse qualifies to begin Social Security, you qualify for a spousal benefit based on your ex-husband or ex-wife's earnings history at FRA. A divorced spousal benefit is different from the married spousal benefit in one way: You don't have to wait for your ex-spouse to file before you can file yourself.³¹

For instance, Charles and Moira were married for fifteen years before their divorce, when he was thirty-six and she was forty. Moira has been remarried for twenty years, and, although Charles briefly remarried, his second marriage ended after a few years. Charles' benefits are largely calculated based on his many years of volunteering in schools, meaning his personal monthly benefit is close to zero.

Although Moira has deferred her retirement, opting to delay benefits until she is seventy, Charles can begin taking benefits calculated from Moira's work history at FRA as early as sixty-two. However, he will also have the option of waiting until FRA to collect the maximum, or 50 percent of Moira's earned monthly benefit at her FRA.

³⁰ Office of the Chief Actuary. Social Security Administration. "Social Security Benefits: Benefits for Spouses."

<https://www.ssa.gov/OACT/quickcalc/spouse.html#calculator>

³¹ Social Security Administration. "Retirement Planner: If You Are Divorced." <https://www.ssa.gov/planners/retire/divspouse.html>

Widowed Spouses

If your marriage ended with the death of your spouse, you might claim a benefit for your spouse's earned income as his or her widow/widower, called a survivor's benefit. Unlike a spousal benefit or divorced benefits, if your husband or wife dies, you can claim his or her full benefit. Also, unlike spousal benefits, if you need to, you can begin taking income when you turn sixty. However, as with other benefit options, your monthly check will be permanently reduced for withdrawing benefits before FRA.

If your spouse began taking benefits before he or she died, you can't delay withdrawing your survivor's benefits to get delayed credits; the Social Security Administration says you can only get as much from a survivor's benefit as your deceased spouse might have gotten, had he or she lived.³²

Taxes, Taxes, Taxes

With Social Security, as with everything, it is important to consider taxes. It may be surprising, but your Social Security benefits are not tax-free. Despite having been taxed to accrue those benefits in the first place, you may have to pay Uncle Sam income taxes on up to 85 percent of your Social Security.

The Social Security Administration figures these taxes using what they call "the provisional income formula." Your provisional income formula differs from the adjusted gross income you use for your regular income taxes. Instead, to find out how much of your Social Security benefit is taxable, the Social Security Administration calculates it this way:

Provisional Income = Adjusted Gross Income + Nontaxable Interest + 1/2 of Social Security

³² Social Security Administration. "Social Security Benefit Amounts For The Surviving Spouse By Year Of Birth."

<https://www.ssa.gov/planners/survivors/survivorchartred.html>

See that piece about nontaxable interest? That generally means interest from government bonds and notes. It surprises many people that, although you may not pay taxes on those assets, their income will count against you when it comes to Social Security taxation.

Once you have figured out your provisional income (also called “combined income”), you can use the following chart to figure out your Social Security taxes.³³

³³ Social Security Administration. “Benefits Planner: Income Taxes and Your Social Security Benefits.” <https://www.ssa.gov/planners/taxes.html>

Taxes on Social Security		
<i>Provisional Income = Adjusted Gross Income + Nontaxable Interest + 1/2 of Social Security</i>		
If you are ___ and your provisional income is ___, then...		Uncle Sam will tax ___ of your Social Security
Single	Married, filing jointly	
Less than \$25,000	Less than \$32,000	0%
\$25,000 to \$34,000	\$32,000 to \$44,000	Up to 50%
More than \$34,000	More than \$44,000	Up to 85%

This is one more reason it may benefit you to work with financial and tax professionals: They can look at your entire financial picture to make your overall retirement plan as tax-efficient as possible—including your Social Security benefit.

If a couple came to me and asked me to help them reposition their Social Security benefits, I would first help them consider the option of taking IRA withdrawals before drawing from Social Security. I would also help them manage their other sources of retirement income in an effort to have them remain below taxable thresholds as much as possible.

Carefully balancing your income during retirement can help you get more out of your Social Security benefits.

Working and Social Security: The Earnings Test

If you haven't reached FRA, but you started your Social Security benefits and are still working, things get a little hairy.

Because you have started Social Security payments, the Social Security Administration will pay out your benefits (at that reduced rate, of course, because you haven't reached your FRA). Yet, because you are working, the organization must also withhold from your check to add to your benefits, which you are already collecting. See how this complicates matters?

To address the situation, the government has what is called the earnings test. For 2023, you can earn up to \$21,240 without it affecting your Social Security check if you're younger than full retirement age. But, for every \$2 you earn past that amount, the Social Security Administration will withhold \$1. The earnings test loosens in the year of your FRA; if you are reaching FRA in 2023, you can earn up to \$56,520 before you run into the earnings test, and the government only withholds \$1 for every \$3 past that amount.

The month you reach FRA, you are no longer subject to any earnings withholding. For instance, if you are still working and will turn sixty-six on December 28, 2023, you would only have to worry about the earnings test until December, and then you can ignore it entirely. Keep in mind, the money the government withholds from your Social Security benefits while you are working before FRA will be tacked back onto your benefits check after FRA.³⁴

³⁴ Social Security Administration. "Receiving Benefits While Working" <https://www.ssa.gov/benefits/retirement/planner/whileworking.html>.

401(k)s & IRAs

Have you heard? Today's retirement is not your parents' retirement. You see, back in the day, it was pretty common to work for one company for the vast majority of your career and then retire with a gold watch and a pension.

The gold watch was a symbol of the quality time you had put in at that company, but the pension was more than a symbol. Instead, it was a guarantee—as solid as your employer—that they would repay your hard work with a certain amount of income in your old age. Did you see the caveat there? Your pension's guarantee was *as solid as your employer*. The problem was, what if your employer went under?

Companies that failed couldn't pay their retired employees' pensions, leading to financial challenges for many. Beginning in 1974 with Congress' passage of the Employee Retirement Income Security Act, federal legislation and regulations aimed at protecting retirees were everywhere. One piece of legislation included a relatively obscure section of the Internal Revenue Code, added in 1978. Section 401(k), to be specific.

IRC section 401, subsection k, created tax advantages for employer-sponsored financial products, even if the main contributor was the employee him or herself. Over the years, more employers took note, beginning an age of transition away from pensions and toward 401(k) plans. A 401(k) is a retirement account with certain tax benefits and restrictions on the investments or other financial products inside of it.

Essentially, 401(k)s and their individual retirement account (IRA) counterparts are “wrappers” that provide tax benefits around assets; typically, the assets that compose IRAs and 401(k)s are mutual funds, stock and bond mixes, and money market accounts. However, IRA and 401(k) contents are becoming more diverse these days, with some companies offering different kinds of annuity options within their plans.

Where pensions are defined-*benefit* plans, 401(k)s and IRAs are defined-*contribution* plans. The one-word change outlines the basic difference. Pensions spell out what you can expect to receive from the plan but not necessarily how much money it will take to fund those benefits. With 401(k)s, an employer sets a standard for how much they will contribute (if any), and you can be certain of what you are contributing. Still, there is no outline for what you can expect to receive in return for those contributions.

Modern employment looks very different. A 2022 survey by the Bureau of Labor Statistics determined U.S. workers stayed with their employers a median of 4.1 years. Workers ages fifty-five to sixty-four had a little more staying power and were most likely to stay with their employer for about ten years.³⁵ Participation in 401(k) plans has steadily risen this century, totaling \$7.3 trillion in assets in 2021 compared to \$3.1 trillion in 2011. The survey revealed about 60 million active participants engaged in 401(k) plans.³⁶

Those statistics make it clear that 401(k) plans have replaced pensions at many companies and, for that matter, a gold watch.

When you get right down to it, having an employer-sponsored plan where the employer pays your way through retirement is very different from having an employer-

³⁵ Bureau of Labor Statistics. September 22, 2022. “Employee Tenure Summary.” <https://www.bls.gov/news.release/tenure.nro.htm>

³⁶ Investment Company Institute. October 11, 2021. “Frequently Asked Questions About 401(k) Plan Research” https://www.ici.org/faqs/faq/401k/faqs_401k#:~:text=In%202020%2C%20there%20were%20about,of%20former%20employees%20and%20retirees.

sponsored plan where you, the employee, pay your way through retirement. The responsibility rests on your shoulders. This single factor makes retirement planning with 401(k)s and IRAs very different from planning with pensions.

If there is anything to learn from this paradigm shift, it's that you must look out for yourself. Whether you have worked for a company for two years or twenty, you are still the one who has to look out for your own best interests. That holds doubly true when it comes to preparing for retirement. If you are one of the lucky ones who still has a pension, good for you. But for the rest of us, it is likely a 401(k)—or possibly one of its nonprofit- or government-sector counterparts, a 403(b) or 457 plan—is one of your biggest assets for retirement.

Some employers offer incentives to contribute to their company plans, like a company match. On that subject, I have one thing to say: *Do it!* Nothing in life is free, as they say, but a company match on your retirement funds is about as close to free money as it gets. If you can make the minimum to qualify for your company's match at all, go for it.

Now, it's likely, during our working years, we mostly “set and forget” our 401(k) funding. Because it is tax-advantaged, your employer is taking money from your paycheck—before taxes—and putting it into your plan for you. Maybe you got to pick a selection of investments, or maybe your company only offers one choice of investment in your 401(k). Either way, while you are gainfully employed, your most impactful decision may just be the decision to continue funding your plan in the first place. But, when you are ready to retire or move jobs, you have choices to make requiring a little more thought and care.

When you are ready to part ways with your job, you have a few options:

- Leave the money where it is
- Take the cash (and pay income taxes and perhaps a 10 percent additional federal tax if you are younger than age fifty-nine-and-one-half)
- Transfer the money to another employer plan (if the new plan allows)

- Roll the money over into a self-directed IRA

Now, these are just general options. You will have to decide, hopefully with the help of a financial professional, what's right for you. For instance, 401(k)s are typically pretty closely tied to the companies offering them, so when changing jobs, it may not always be possible to transfer a 401(k) to another 401(k). Leaving the money where it is may also be out of the question—some companies have direct cash payout or rollover policies once someone is no longer employed.

Also, remember what we said earlier about how we change jobs more often these days? That means you likely have a 401(k) with your current company, but you may also have a string of retirement accounts trailing you from other jobs.

In my practice, I find many of my clients don't realize they have money stored all over the place from different jobs. And, many times, they're not forthcoming with telling me how many accounts they really have. But, honestly, bringing all the assets you have together, doing the math, and seeing how much you actually have saved up for retirement can be liberating.

Many people may have worked for a company for five or ten years—maybe even for the state or federal government. They probably have earned a partial pension or had money withheld in 401(k), 403(b), or 457 plans. By coming to a qualified financial professional with these details, you can gain a clearer picture of what you really have. You probably have more than you realize. But, if you don't know what you've really got, planning is harder.

When it comes to your retirement income, it's important to be able to pull together *all* your assets, so you can examine what you have and where, and then decide what you will do with it.

Tax-Qualified, Tax-Preferred, Tax-Deferred ... Still TAXED

Financial media often cite IRAs and 401(k)s for their tax benefits. After all, with traditional plans, you put your money in, pre-tax, and it hopefully grows for years, even decades, untaxed. That's why these accounts are called "tax-qualified" or "tax-deferred" assets. They aren't *tax-free*! Rarely does Uncle Sam allow business to continue without receiving his piece of the pie, and your retirement assets are no different. If you didn't pay taxes on the front end, you will pay taxes on the money you withdraw from these accounts in retirement. Don't get me wrong: This isn't an inherently good or bad thing; it's just the way it is. It's important to understand, though, for the sake of planning ahead.

In retirement, many people assume they will be in a lower tax bracket. Are you planning to pare down your lifestyle in retirement? Perhaps you are, and perhaps you will have substantially less income in retirement. But many of my clients tell me they want to live life more or less the same as they always have. The money they would previously have spent on business attire or gas for their commute they now want to spend on hobbies and grandchildren. That's all fine, and for many of them, it is doable, but does it put them in a lower tax bracket? Probably not.

Keep in mind, IRAs, 401(k)s, and their alternatives have a few limitations because of their special tax status. For one thing, the IRS sets limits on your contributions to these retirement accounts. If you are contributing to a 401(k) or an equivalent nonprofit or government plan, your annual contribution limit is \$22,500 (as of 2023). If you are fifty or older, the IRS allows additional contributions, called "catch-up contributions," of up to \$7,500 on top of the regular limit of \$22,500. For an IRA, the limit is \$6,500, with a catch-up limit

of an additional \$1,000.³⁷ Beginning in 2024, catch-up contributions for individuals with income exceeding \$145,000 must transfer into a Roth IRA.³⁸

Because their tax advantages come from their intended use as retirement income, withdrawing funds from these accounts before you turn fifty-nine-and-one-half can carry stiff penalties. In addition to fees your investment management company might charge, you will have to pay income tax *and* a 10 percent federal tax penalty, with few exceptions.

The fifty-nine-and-one-half rule for retirement accounts is incredibly important to remember, especially when you're young. Younger workers are often tempted to cash out an IRA from a previous employer and then are surprised to find their checks missing 20 percent of the account value to income taxes, penalty taxes, and account fees.

Many millennials I see in my practice say, while they may be socking money away in their workplace retirement plan, it is often the *only* place they are saving. This could be problematic later because of the fifty-nine-and-one-half rule; what if you have an emergency? It is important to fund your retirement, but you need to have some liquid assets handy as emergency funds. This can help you avoid breaking into your retirement accounts and incurring taxes and penalties because of the fifty-nine-and-one-half rule.

RMDs

Remember how we talked about the 401(k) or IRA being a “tax wrapper” for your funds? Well, eventually, Uncle Sam will want a bite of that candy bar. So, when you turn seventy-three, the government requires you withdraw a portion of your account,

³⁷ IRS.gov. December 8, 2022. “401(k) limit increases to \$22,500 for 2023, IRA limit rises to \$6,500” <https://www.irs.gov/newsroom/401k-limit-increases-to-22500-for-2023-ira-limit-rises-to-6500>

³⁸ Fidelity.com. 2023. “SECURE 2.0: Rethinking retirement savings” <https://www.fidelity.com/learning-center/personal-finance/secure-act-2>

which the IRS calculates based on the size of your account and your estimated lifespan. This required minimum distribution, or RMD, is the government's insurance it will collect some taxes, at some point, from your earnings. Because you didn't pay taxes on the front end, you will now pay income taxes on whatever you withdraw, including your RMDs.

Let me reiterate something I pointed out in the Longevity chapter. Beginning at age seventy-three, you are required to withdraw a certain minimum amount every year from your 401(k) or IRA, or else you will face a tax penalty on any RMD monies you should have withdrawn but didn't—and that's on top of income tax. The SECURE Act 2.0 reduced the penalty to 25 percent (from 50 percent). Timely corrections also can reduce the penalty to 10 percent.³⁹

Even after you begin RMDs, you can still also continue contributing to your 401(k) or IRAs if you are still employed, which can affect the whole discussion on RMDs and possible tax considerations. The SECURE Act 2.0 raised the RMD age to seventy-three from seventy-two. In addition, the latest legislation stipulates the RMD age will increase to seventy-five for those turning seventy-four after December 31, 2032.⁴⁰

If you don't need income from your retirement accounts, RMDs can seem like more of a tax burden than an income boon. While some people prefer to reinvest their RMDs, this comes with the possibility of additional taxation: You'll pay income taxes on your RMDs and then potential capital gains taxes on the growth of your investments. If you are legacy-minded, there are other ways to use RMDs, many of which have tax benefits.

SECURE 2.0 Act provisions

In addition to changes imposed for RMD ages, Secure Act 2.0 also expanded access to retirement savings using different

³⁹ Jim Probasco. Investopedia.com. January 6, 2023. "SECURE 2.0 Act of 2022." <https://www.investopedia.com/secure-2-0-definition-5225115>

⁴⁰ Ibid.

methods. Provisions in the legislation go into effect at different times, ranging from 2023-25.

- Beginning January 2, 2024, plan participants can access up to \$1,000 (once a year) from retirement savings for emergency personal or family expenses without paying a 10 percent early withdrawal penalty.
- Beginning January 2, 2024, employees can establish a Roth emergency savings account of up to \$2,500 per participant.
- Beginning January 2, 2024, domestic abuse survivors can withdraw the lesser of \$10,000 or 50 percent of their retirement account without penalty.
- Beginning January 1, 2023, victims of a qualified, federally declared disaster can withdraw up to \$22,000 from their retirement account without penalty.⁴¹

Permanent Life Insurance

One way to turn those pesky RMDs into a legacy is through permanent life insurance. Assuming you need the death benefit coverage and can qualify for it medically, if properly structured, these products can pass on a sizeable death benefit to your beneficiaries, tax-free, as part of your general legacy plan.

ILIT

Another way to use RMDs toward your legacy is to work with an estate planning attorney to create an irrevocable life insurance trust (ILIT). This is basically a permanent life insurance policy placed within a trust. Because the trust is irrevocable, you would relinquish control of it, but, unlike with just a permanent life insurance policy, your death benefit won't count toward your taxable estate.

⁴¹ Betterment.com. January 12, 2023. "SECURE Act 2.0: Signed into Law" <https://www.betterment.com/work/resources/secure-act-2>

Annuities

Because annuities can be tax-deferred, using all or a portion of your RMDs to fund an annuity contract can be one way to further delay taxation while guaranteeing your income payments (either to you or your loved ones) later. Of course, this assumes you don't need the RMD income during your retirement.

Qualified Charitable Distributions

If you are charity-minded, you may use your RMDs toward a charitable organization instead of using them for income. You must do this directly from your retirement account (you can't take the RMD check and *then* pay the charity) for your withdrawals to be qualified charitable distributions (QCDs), but this is one way of realizing some of the benefits of a charitable legacy during your own lifetime. You will not need to pay taxes on your QCDs, and they won't count toward your annual charitable tax deduction limit, plus you'll be able to see how the organization you are supporting uses your donations. You should consult a financial professional on how to correctly make a QCD, particularly since the SECURE Act of 2019 has implemented a few regulations on this point.⁴²

Roth IRA

Since the Taxpayer Relief Act of 1997, there has been a different kind of retirement account, or "tax wrapper," available to the public: the Roth. Roth IRAs and Roth 401(k)s each differ from their traditional counterparts in one big way: You pay your taxes on the front end. This means, once your post-tax money is in the Roth account, as long as you follow the rules and limitations of that account, your distributions are truly tax-free.

⁴² Bob Carlson. Forbes. January 28, 2020. "More Questions And Answers About The SECURE Act."

<https://www.forbes.com/sites/bobcarlson/2020/01/28/more-questions-and-answers-about-the-secure-act/#113d49564869>

You won't pay income tax when you take withdrawals, so, in turn, you don't have to worry about RMDs. However, Roth accounts have the same limitations as traditional 401(k)s and IRAs when it comes to withdrawing money before age fifty-nine-and-one-half, with the added stipulation that the account must have been open for at least five years in order for the accountholder to make withdrawals.

My firm does a lot of Roth conversions; it's been an effective strategy for many of our clients throughout the years. This process involves moving funds from a traditional IRA or 401(k) into their respective Roth counterpart.

In fact, because many believe tax rates will rise in the future, I've often referred to traditional accounts as "tax time bombs." While this conversion requires tax payment on funds converted to a Roth account, I find some people prefer the idea of having a tax-exempt account over a tax-deferred account. And, because of the flexible terms of Roth accounts, this form of planning can also make your future access to these funds less stressful.

Taking Charge

As mentioned earlier, the 401(k) and IRA have largely replaced pensions, but they aren't an equal trade.

Pensions are employer-funded; the money feeding into them is money that wouldn't ever show up on your pay stub. Because 401(k)s are self-funded, you must actively and consciously save. This distinction has made a difference when it comes to funding retirement. Fidelity Investments published a story detailing that the average 401(k) balance for a person age fifty-five to sixty-four is \$189,800, but the median likely tells the full story. The median 401(k) balance for a person age fifty-five to

sixty-four is \$56,450. Those figures reflect Fidelity accounts from the third quarter of 2022.⁴³

There can be many reasons why people underfund their retirement plans, like being overwhelmed by the investment choices or taking withdrawals from IRAs when they leave an employer, but the reason at the top of the list is this: People simply aren't participating to begin with.

So, whether you use a 401(k) with an employer or an IRA alternative with a private company, separate from your workplace, the most important retirement savings decision you can make is to sock away your money somewhere in the first place.⁴⁴

⁴³ Arielle O'Shea. Nerd Wallet. December 22, 2022. "The Average 401(k) Balance by Age" <https://www.nerdwallet.com/article/investing/the-average-401k-balance-by-age>

⁴⁴ A Roth conversion is a taxable event and may have several tax related consequences. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA.

Annuities

In my practice, I offer my clients a variety of products—from securities to insurance—all designed to help them reach their financial goals. You may be wondering: Why single out a single product in this book?

Well, while most of my clients have a pretty good understanding of business and finance, I sometimes find those who have the impression there must be magic involved. Some people assume there is a magic finance wand we can wave to change years' worth of savings into a strategy for retirement income. But it's not as easy as a goose laying golden eggs or the Fairy Godmother turning a pumpkin into a coach!

Finances aren't magic; it takes lots of hard work and, typically, several financial products and strategies to pull together a complete retirement plan. Of all the financial products I work with, it seems people find none more mysterious than annuities. And, if I may say, even some of those who recognize the word "annuity" have a limited understanding of the product. So, in the interest of demystifying annuities, let me tell you a little about what an annuity is.

In general, insurance is a financial hedge against risk. Car owners buy auto insurance to protect their finances in case they injure someone or someone injures them. Homeowners have house insurance to protect their finances in case of a fire, flood, or another disaster. People have life insurance to protect their finances in case of untimely death. Almost juxtaposed to life

insurance, people have annuities in case of a long life; annuities can give you financial protection by providing consistent and reliable income payments.

The basic premise of an annuity is you, the annuitant, pay an insurance company some amount in exchange for their contractual guarantee they will pay you income for a certain time period. How that company pays you, for how long, and how much they offer are all determined by the annuity contract you enter into with the insurance company.

How You Get Paid

There are two ways for an annuity contract to provide income: The first is through what is called annuitization, and the second is through the use of income riders. We'll get into income riders in a bit, but let's talk about annuitization. That nice, long word is, in my opinion, one reason annuities have a reputation for mystery and misinformation.

Annuitization

When someone “annuitizes” a contract, it is the point where he or she turns on the income stream. Once a contract has been annuitized, there is no going back. With annuities, if the policyholder lives longer than the insurance company planned, the insurance company is still obligated to pay him or her, even if the payments end up being way more than the contract's actual value. If, however, the policyholder dies an untimely death, depending on the contract type, the insurance company may keep anything left of the money that funded the annuity—nothing would be paid out to the contract holder's survivors. You see where that could make some people balk? Now, modern annuities rarely rely on annuitization for the income portion of the contract, and, instead, have so many bells and whistles the old concept of annuitization seems outdated. But,

because this is still an option, it's important to at least understand the basic concept.

Riders

Speaking of bells and whistles, let's talk about riders. Modern annuities have a lot of different options these days, many in the form of riders you can add to your contract for a fee—usually about 1 percent of the contract value per year. Each rider has its particulars, and the types of riders available will vary by the type of annuity contract purchased, but I'll just briefly outline some of these little extras:

- Lifetime income rider: Contract guarantees you an enhanced or flexible income for life
- Death benefit rider: Contract pays an enhanced death benefit to your beneficiaries even if you have annuitized
- Return of premium rider: Guarantees you (or your beneficiaries) will at least receive back the premium value of the annuity
- Long-term care rider: Provides a certain amount, sometimes as much as twice the normal income benefit amount for a period of time to help pay for long-term care if the contract holder is moved to a nursing home or assisted living situation

This isn't an extensive look, and usually the riders have fancier names based on the issuing company, like "Lorem Ipsum Insurance Company Income Preferred Bonus Fixed Index Annuity rider," but I just wanted to show you what some of the general options are in layperson's terms.

Types of Annuities

Annuities break down into four basic types: immediate, variable, fixed, and fixed index.

Immediate

Immediate annuities primarily rely on annuitization to provide income—you give the insurance company a lump sum up front, and your payments begin immediately. Once you begin receiving income payments, the transaction is irreversible, and you no longer have access to your money in a lump sum. When you die, any remaining contract value is typically forfeited to the insurance company.

All other annuity contract types are “deferred” contracts, meaning you fund your policy as a lump sum or over a period of years and you give it the opportunity to grow over time—sometimes years, sometimes decades.

Variable

A variable annuity is an insurance contract as well as an investment. It’s sold by insurance companies, but only through someone who is registered to sell investment products. With a variable annuity contract, the insurance company invests your premiums in subaccounts that are tied to the stock market. This makes it a bit different from the other annuity contract types because it is the only contract where your money is subject to losses because of market declines. Your contract value has a greater opportunity to grow, but it also stands to lose. Additionally, your contract’s value will be subject to the underlying investment’s fees and limitations—including capital gains taxes, management fees, etc. Once it is time for you to receive income from the contract, the insurance company will pay you a certain income, locked in at whatever your contract’s value was.

Very early in my career, I was working for a large insurance company. They touted the variable annuity as a good investment product. However, I will tell you, in forty-two years of business, I’ve sold only four variable annuities. I sold them in my first year of business, working for that insurance company . . . and that was it. The problem I see with variable

annuities is there's market risk involved, very similar to a mutual fund, and mutual funds are known to be risky. While no product is inherently good or bad, as I have come to understand how they work—the fees, the risk, as well as the limited liquidity—I have rarely recommended my clients be provided a variable annuity.

Fixed

A traditional fixed annuity is pretty straightforward. You purchase a contract with a guaranteed interest rate and, when you are ready, the insurance company will make regular income payments to you at whatever payout rate your contract guarantees. Those payments will continue for the rest of your life and, if you choose, for the remainder of your spouse's life.

Fixed annuities don't typically offer significant upside potential, but many people like them for their guarantees (after all, if your Aunt May lives to be ninety-five, knowing she has a paycheck later in life can be her mental and financial safety net), as well as for their predictability. Unlike variable annuities, which are subject to market risk and might be up one year and down the next, you can easily calculate the value of your fixed annuity over your lifetime.

Fixed Index

To recap, variable annuities take on more risk to offer more possibilities to grow. Fixed annuities have less potential growth, but they protect your principal. In the last couple of decades, many insurance companies have retooled their product line to offer fixed index annuities, which are sort of midway between variable and fixed annuities on that risk/reward spectrum. Fixed index annuities offer greater growth potential than traditional fixed annuities but less than variable annuities. Like traditional fixed annuities, however, fixed index annuities are protected from downside market losses.

Fixed index annuities earn interest that is tied to an external market index, meaning that, instead of your contract value growing at a set interest rate like a traditional fixed annuity, it has the potential to grow within a range. Your contract's value is credited interest based on the performance of an external market index like the S&P 500 while never being invested in the market itself. You can't invest in the S&P 500 directly, but each year, your annuity has the potential to earn interest based on the chosen index's performance, subject to limits set by the company such as caps, spreads and participation rates.

For instance, if your contract caps your interest at 5 percent, then in a year that the S&P 500 gains 3 percent, your annuity value increases 3 percent. If the S&P 500 gains 35 percent, your annuity value gets a 5 percent interest bump. But since your money isn't actually invested in the market with a fixed index annuity, if the market nosedives (such as happened during 2000, 2008, and 2020, anyone?) you won't see any increase in your contract value. Conversely, there will also be no decrease in your contract value—no matter how badly the market performed—as long as you follow the terms of the contract, you won't lose any of the interest you were credited in previous years.

So, what if the S&P 500 shows a market loss of 30 percent? Your contract value isn't going anywhere (unless you purchased an optional rider—this charge will still come out of your annuity value each year). For those who are more interested in protection than growth potential, fixed index annuities can be an attractive option because, when the stock market has a long period of positive performance, a fixed index annuity can enjoy conservative growth. And, during stretches where the stock market is erratic and stock values across the board take significant losses? Fixed index annuities won't lose anything due to the stock market volatility.

If I'm going to recommend an annuity for a client, I will often recommend a fixed index annuity. In general, I like to focus on income planning, and fixed index annuities have the opportunity for solid long-term growth.

Other Things to Know About Annuities

We just talked about the four kinds of annuity contracts available, but all of them have some commonalities as annuities.

For all annuities, the contractual guarantees are only as strong as the insurance company that sells the product, which makes it important to thoroughly check the credit ratings of any company whose products you are considering.

Annuities are tax-deferred, meaning you don't have to pay taxes on interest earnings each year as the contract value grows. Instead, you will pay ordinary income taxes on your withdrawals. These are meant to be long-term products, so, like other tax-deferred or tax-advantaged products, if you begin taking withdrawals from your contract before age fifty-nine-and-one-half, you may also have to pay a 10 percent federal tax penalty. Also, while annuities are generally considered illiquid, most contracts allow you to withdraw up to 10 percent of your contract value every year. Withdraw any more, however, and you could incur additional surrender penalties.

Keep in mind, your withdrawals will deplete the accumulated cash value, death benefit, and, possibly, the rider values of your contract.

An annuity can be a powerful product to add to your retirement planning portfolio. Balancing it with other sources of retirement income, such as 401(k)s, IRAs, Roth accounts, and your Social Security benefits, can help you create the diversity of assets essential for a complete plan.

I personally feel that, for the right person, annuities play a vital role in retirement planning. I have found those who purchase annuities have an added measure of confidence they will be ready for retirement.

Annuities aren't for everyone, but it's important to understand them before saying "yea" or "nay" on whether they fit into your plan; otherwise, you're not operating with complete information, wouldn't you agree? Regardless, you should talk to a financial professional who can help you

understand annuities, help you dissect your particular financial needs, and help show you whether an annuity is appropriate for your retirement income plan.⁴⁵

⁴⁵ Annuity guarantees rely on the financial strength and claims-paying ability of issuing insurance company. Annuities are insurance products that may be subject to fees, surrender charges and holding periods, which vary by carrier. Annuities are not FDIC insured.

Estate & Legacy

In my practice, I devote a significant portion of my time to matters of estates. That doesn't mean drawing up wills or trusts or putting together powers of attorney or anything like that. After all, I'm not an estate planning attorney. But I am a financial professional, and what part of the "estate" isn't affected by money matters?

I've included this chapter because I have seen many people do estate planning wrong. Clients, or clients' families, have come in after experiencing a death in the family and have found themselves in the middle of probate, high taxes, or a discovery of something unforeseen (often long-term care) draining the estate.

I have also seen people do estate planning right: clients or families who visit my office to talk about legacies and how to make them last and adult children who have room to grieve without an added burden of unintended costs, without stress from a family ruptured because of inadequate planning.

I'll share some of these stories here. However, I'm not going to give you specific advice, since everyone's situation is unique. I only want to give you some things to think about and to underscore the importance of planning ahead.

Again, when working in an area outside my field of expertise, I like to collaborate with other professionals. Many years ago I realized in order to be an effective financial advisor, I would need to have different resources to draw from, especially when

interacting with the legal field. So, I now work with a number of estate planning attorneys. This way I can help my clients escape the woes of bad planning. This collaboration is reflected in the contents of this chapter.

(One word of caution: While attorneys do work in the legal field, they often are not qualified to be working in the estate preservation and asset protection arenas. For this reason, having a financial professional you can trust to collaborate with these matters is important.)

You Can't Take It With You

When it comes to legacy and estate planning, the most important thing is to *do it*. I have heard people from clients to celebrities (rap artist Snoop Dogg comes to mind) say they aren't interested in what happens to their assets when they die because they'll be dead. That's certainly one way to look at it. But I think that's a very selfish way to go about things—we all have people and causes we care about, and those who care about us. Even if the people we love don't *need* what we leave behind, they can still be fined or legally tied up in the probate process or burial costs if we don't plan for those. And that's not even considering what happens if you become incapacitated at some point while you are still alive. Having a plan in place can greatly reduce the stress of those responsibilities on your loved ones; it's just a loving thing to do.

Documents

There are a few documents that lay the groundwork of legacy planning. You've probably heard of all or most of them, but I'd like to review what they are and how people commonly use them. These are all things you should talk about with an estate planning attorney to establish your legacy.

Powers of Attorney

A power of attorney, or POA, is a document giving someone the authority to act on your behalf and in your best interests. These come in handy in situations where you cannot be present (think a vacation where you get stuck in Canada) or, for durable powers of attorney, even when you are incapacitated (think in a coma or coping with dementia).

It is important to have powers of attorney in place and to appoint someone you trust to act on your behalf in these matters. Have you ever heard of someone who was incapacitated after a car accident, whether from head trauma or being in a coma for weeks—sometimes months? Do you think their bills stopped coming due during that time? I like my phone company and my bank, but neither one is about to put a moratorium on sending me bills, particularly not for an extended or interminable period. A power of attorney would have the authority to pay your mortgage or cancel your cable while you are unable.

You can have multiple POAs and require them to act jointly.

What this looks like: Do you think two heads are better than one? One man, Chris, significantly relied on his two sons' opinions for both his business and personal matters. He appointed both sons as joint POA, requiring both their signoffs for his medical and financial matters.

You can have multiple POAs who can act independently.

What this looks like: Irene had three children with whom she routinely stayed. They lived in different areas of the country, which she thought was an advantage; one month she might be hiking out West, the next she could enjoy the newest off-Broadway production, and the next she could soak up some Southern sun. She named her three children as independently

authorized POAs, so, if something happened, no matter where she was, the child closest could step in to act on her behalf.

You can have POAs who have different responsibilities.

What this looks like: Although Luke's friend Claire, a nurse, was his go-to and POA for health-related issues, financial matters usually made her nervous, so he appointed his good neighbor, Matt, as his POA in all of his financial and legal matters.

In addition to POAs, it may be helpful to have an advanced medical directive. This is a document where you have pre-decided what choices you would make about different health scenarios. An advanced medical directive can help ease the burden for your medical POA and loved ones, particularly when it comes to end-of-life care.

I can speak to the benefits of POAs from my personal experience. My dad was an older parent. Unfortunately, saving money and planning were not his strong suits. At a relatively young age, my dad began to develop Alzheimer's, and he ended up living with me for a couple of years. Before his condition seriously affected his mental capacity, I had a friend who was an attorney come to my house and explain the power of attorney to my dad. Then, he signed a document that allowed me to act on his behalf. This helped tremendously; I was able to pay his bills and take care of his limited assets in a way he just couldn't. And, because he eventually had to go to a nursing home, I was able to manage that transition smoothly. I cannot imagine what the last few years of my father's life would have been like if we had not used this legal provision.

Wills

Perhaps the most basic document of legacy planning, a will is a legal document wherein you outline your wishes for your estate.

When it comes to your estate after your death, having a will is the foundation of your legacy. Without one, your loved ones are left behind, guessing what you would have wanted, and the court will likely split your assets according to the state's defaults. Maybe that's exactly what you wanted, as far as anyone knows, right? Because even if you told your nephew he could have your car he's been driving, if it's not in writing, it still might go to the brother, sister, son, or daughter to whom you aren't speaking.

However, it may not be enough just to have a will. Even with a will, your assets will be subject to probate. Probate is what we call the state's process for determining a will's validity. A judge will go through your will to question if it conflicts with state law, if it is the most up-to-date document, if you were mentally competent at the time it was in order, etc. For some, this is a quick, easily-resolved process. For others, particularly if someone steps forward to contest the will, it may take years to settle, all the while subjecting the assets to court costs and attorney's fees.

One other undesirable piece of the probate process is that it is a public process. That means anyone can go to the courthouse, ask for copies of the case, and discover your assets. They can also see who is slated to receive what and who is disputing.

You might be familiar with just how painful probate cases can be. From the media we hear about people contesting the wills of celebrities after they pass (i.e. Anna Nicole Smith). While the chances of something like this happening in your case may seem unlikely, the possibility is always there. For that reason, attention to detail when crafting or updating your will is essential. Get all your documentation done by a professional who understands all the intricacies of this part of the planning process. Having an air-tight estate plan will help prevent the possibility of litigation in the future.

It's also important to remember beneficiary lines trump wills. So, that large life insurance policy? What if, when you bought it fifteen years ago, you wrote your ex-husband's name

on the beneficiary line? Even if you stipulate otherwise in your will, the company that holds your policy will pay out to your ex-spouse. Or, how about the thousands of dollars in your IRA you dedicated to the children thirty years ago, but one of your children was killed in a car accident, leaving his wife and two toddlers behind? That IRA is going to transfer to your remaining children, with nothing for your daughter-in-law and grandchildren.

That may paint a grim portrait, but I can't underscore enough the importance of working with a skilled estate planning attorney to keep your will and beneficiary lines up to date as your life changes, for the sake of your loved ones.

I once worked with a couple for a short time who'd created a horrifying situation for themselves as a result of poor estate planning. When I was advising them, I made a great effort to help them establish a plan that would benefit their family. However, for various reasons, they decided to turn exclusively to a certain law firm for their estate planning. Because of bad communication and negligence throughout their planning process, their plan was incomplete and their documentation was ugly. When the husband died, they suffered the consequences. Essentially, the wife had an all-out brawl with some members of her family. The nasty legal proceedings were complicated by cross-state issues, and, ultimately, this led to seemingly endless stress and massive legal bills. This was the tragic ending to a situation that could have been avoided if they'd done things the right way from the get-go.

Trusts

Another piece of legacy planning to consider is the trust.

A trust is set up through an attorney and allows a third party, or trustee, to hold your assets and determine how they will pass to your beneficiaries. Many people are skeptical of trusts because they assume they are only appropriate for the fabulously wealthy.

However, a simple trust may only cost \$1,000 to \$2,500 in attorney's fees and can avoid both the expense and publicity of probate, provide a more immediate transfer of wealth, avoid some taxes, and provide you greater control over your legacy.⁴⁶

For instance, if you want to set aside some funds for a grandchild's college education, you can make it a requirement he or she enrolls in classes before your trust will dispense any funds. Like a will, beneficiary lines will override your trust conditions, so you must still keep insurance policies and other assets up to date.

Like any financial or legal consideration, there are many options these days beyond the simple "yes or no" question of whether to have a trust. For one thing, you will need to consider if you want your trust to be revocable (you can change the terms while you are alive) or irrevocable (can't be changed; you are no longer the "owner" of the contents). A brief note here about irrevocable trusts: Although they have significant and greater tax benefits, they are still subject to a Medicaid look-back period. This means, if you transfer your assets into an irrevocable trust in an attempt to shelter them from a Medicaid spend-down, you will be ineligible for Medicaid coverage of long-term care for five years. Yet, an irrevocable trust can avoid both probate and estate taxes, and it can even protect assets from legal judgments against you.

Another thing to remember when it comes to trusts, in general, is, even if you have set up a trust, you must remember to fund it. In my forty-two years of work, I've had numerous clients come to me, assuming they have protected their assets with a trust. When we talk about taxes and other pieces of their legacy, it turns out they never retitled any assets or changed any paperwork on the assets they wanted in the trust. So, please remember, a trust is just a bunch of fancy legal papers if you haven't followed through on retitling your assets.

⁴⁶ Regan Rondinelli-Haberek. LegalZoom. "What is the Average Cost to Prepare a Living Trust?" <https://info.legalzoom.com/average-cost-prepare-living-trust-26932.html>

Taxes

Although charitable contributions, trusts, and other tax-efficient strategies can reduce your tax bill, it's unlikely your estate will be passed on entirely tax-free. Yet, when it comes to building a legacy that can last for generations, taxes can be one of the heaviest drains on the impact of your hard work.

For 2017, the federal estate exemption was \$5.49 million per individual and \$10.98 million for a married couple, with estates facing up to a 40 percent tax rate after that. In 2021, those limits increased to \$11.7 million for individuals and \$23.4 million for married couples, with the 40 percent top level gift and estate tax remaining the same. Currently, the new estate limits are set to increase with inflation until January 1, 2026, when they will “sunset” back to the inflation-adjusted 2017 limits.⁴⁷ And that's not taking into account the various state regulations and taxes regarding estate and inheritance transfers.

One frequent tax concern: retirement accounts.

Your IRA or 401(k) can be a source of tax issues when you pass away. For one thing, taking funds from a sizeable account can trigger a large tax bill. However, if you leave the assets in the account, there are still required minimum distributions (RMDs), which will take effect even after you die. If you pass the account to your spouse, he or she can keep taking your RMDs as is, or your spouse can retitle the account in his or her name and receive RMDs based on his or her life expectancy.

Remember, if you don't take your RMDs, the IRS will take up to 25 percent of your required distribution (10 percent if corrections are made in a timely fashion), You will still have to pay income taxes whenever you withdraw that money. Provisions in the original SECURE Act, anyone who inherits

⁴⁷ Laura Sanders, Richard Rubin. The Wall Street Journal. April 8, 2021. “Estate and Gift Taxes 2020-2021: Here's What You Need to Know” <https://www.wsj.com/articles/estate-and-gift-taxes-2020-2021-heres-what-you-need-to-know-11617908256>

your IRA, with few exceptions (your spouse, a beneficiary less than ten years younger, or a disabled adult child, to name a few), will need to empty the account within ten years of your death.

Also—and this is a pretty big also—check with an attorney if you are considering putting your IRA or 401(k) in a trust. An improperly titled beneficiary form for the IRA could mean the difference of thousands of dollars in taxes. This is just one more reason to work with a financial professional, one who can strategically partner with an estate planning attorney to diligently check your decisions.

I once worked with a couple whom I'll call Bob and Diane. Bob was the type of guy who really didn't trust anybody. If he did trust you, and he liked you, you were his best friend, and he would do anything to help you. We, for whatever reason, struck up a good friendship.

As I was helping Bob and Diane with their planning through the years, Bob would come up to my office every few months. We would always go out for lunch and talk. He always talked a lot about his wife; he said, if anything should ever happen to him, he wanted to make sure she would be well taken care of. They had some complicated family situations with previous spouses and estranged children, so that made the planning more difficult. But Bob did some trust-based planning with a very good estate planning attorney.

Eventually, my friend Bob retired. Sadly, after a couple of years, Bob developed medical conditions linked to an undiagnosed issue. After some time and testing, it turned out to be brain cancer. He went through a lot of chemotherapy and some surgeries. About six months before Bob passed away, Diane called me and said Bob wanted to talk.

I went to his nursing home and sat down with him. As we were talking, he expressed his appreciation for our relationship. He also expressed how much comfort it brought him to know his wife would have what she needed to get by when he was gone. That moment was incredibly difficult but incredibly gratifying.

When the sad day came for Bob to pass away, Diane didn't have to worry at all about the estate. It was truly an honor to have the relationship I had with this couple and to help them navigate the financial maze they'd faced.⁴⁸

⁴⁸ This is intended for informational purposes only and should not be construed as tax or legal advice. Consult our tax or legal advisor regarding your situation.

Women-Specific Concerns

I help men, women, and families from all walks of life on their journey to and through retirement. Yet, I want to address the female demographic specifically. Why? To be perfectly blunt, women are more likely to deal with poverty than men when they reach retirement.

In 2021, the overall poverty rate for women slightly exceeded the rate for men, but among those seventy-five years and older, 13.51 percent of women lived at the poverty rate compared to 8.82 percent of men.⁴⁹

The topics, products, and strategies I cover elsewhere in this book are meant to help address retirement concerns for men *and* women, but those kinds of statistics are a reminder that much of traditional planning is geared toward men. Male careers, male lifespans, male health care. The bottom line is women’s career paths often look much different than men’s, so why would their retirement planning look the same?

I recently had a female client whose eighty-one-year-old husband had just passed away. She was nearly a quarter of a century younger than him—only fifty-seven herself. Her husband had always been the money manager of the family. He managed his portfolio to try to account for the fact he would

⁴⁹ [statistica.com. 2023. “Poverty rate in the United States in 2021, by age and gender” https://www.statista.com/statistics/233154/us-poverty-rate-by-gender/](https://www.statista.com/statistics/233154/us-poverty-rate-by-gender/)

likely pass away long before his wife. When she came to me, however, I could sense she was deeply concerned about her circumstances. She feared she might not really have enough money to live out her days comfortably. After all, she could easily live for another thirty or thirty-five years. That's a long time! Thankfully, there was a significant amount of money in her portfolio. After I helped her see how much she really had left, I could tell a feeling of calm came over her. But think, what if her husband hadn't planned as thoroughly?

This woman's circumstances aren't too far out of the ordinary. What can be done for women to help them overcome the unique challenges that come with their retirement?

Be Informed

It's a familiar scene in many financial offices across the country: A woman comes into an appointment carrying a sack full of unopened envelopes. Often through tears, she sits across the desk from a financial professional and apologizes her way through a conversation about what financial products she owns and where her income is coming from. She is recently widowed and was sure her spouse was taking care of the finances, but now she doesn't know where all their assets are kept, and her confidence in her financial outlook has wavered after walking through funeral expenses and realizing she's down to one income.

Often, she may be financially "okay." Yet, the uncertainty can be wearying, particularly when the family is already reeling from a loss. While this scenario sometimes plays out with men, in my experience, it's more likely to be a woman in that chair across from my desk, probably, in part, because of Western traditions about money management being "a guy thing." But it doesn't have to be this way. This all-too-common scenario can be wiped away with just a little preparation.

Talk to Your Spouse/Work with a Financial Professional

While there are many factors affecting women's financial preparation for and situation in retirement, I cannot emphasize enough that the decision to be informed, to be a part of the conversation, and to be aware of what is going on with your finances is absolutely paramount to a confident retirement.

With all the couples I've seen, there is almost always an "alpha" when it comes to finances. It isn't always men—for many of my coupled clients, the wife is the alpha who keeps the books and budgets and knows where all of the family's assets are, down to the penny—yet, statistically, among baby boomers it is usually a man who runs the books. But, as time goes on, it looks like the ratio of male to female financial alphas is evening out based on my experience speaking with couples.

The breakdown happens when there is a lack of communication, when no one other than the financial alpha knows how much the family has and where. In the end, it doesn't matter who handles the money; it's about all parties being informed of what's going on financially.

There are a lot of ways to open up the conversation about money. One woman started a conversation with her husband, the financial alpha, by sitting down and saying, "Teach me how to be a widow." Perhaps that sounds grim, but it was to the point, and it spurred what she said was a very fruitful conversation. Couples sometimes have their first real conversation about money, assets, and their retirement plans in our office. The important thing about having these conversations isn't where, it's when . . . and the best "when" is as soon as possible.

Spouse-Specific Options

One area where it might be especially important to be on the same page between spouses is when it comes to financial

products or services that have spousal options. A few that come to mind are pensions and Social Security, although life insurance and annuity policies also have the potential to affect both spouses.

With pensions, taking the worker's life-only option is somewhat attractive—after all, the monthly payment is bigger. However, you and your spouse should discuss your options. When we're talking about both of you, as opposed to just one lifespan, there is an increased likelihood at least one of you will live a long, long time. This means the monthly payout will be less, but it also ensures that, no matter which spouse outlives the other, no one will have to suffer the loss of a needed pension paycheck in his or her later retirement years.

While we covered Social Security options in a different chapter, I think some of the spousal information bears repeating. Particularly, if you worked exclusively inside the home for a significant number of years, you may want to talk about taking your Social Security benefits based on your spouse's work history. After all, Social Security is based on your thirty-five highest-earning years.

Things to remember about spousal benefits:⁵⁰

- Your benefit will be calculated as a percentage (up to 50 percent) of your spouse's earned monthly benefit at his or her full retirement age, or FRA.
- For you to begin receiving a spousal benefit, your spouse must have already filed for his or her own benefits, and you must be at least sixty-two.
- You can qualify for a full half of your spouse's benefits if you wait until you reach FRA to file.
- Beginning your benefits earlier than your FRA will reduce your monthly check, but waiting to file until after FRA will not increase your benefits.

⁵⁰ Social Security Administration. "Retirement Planner: Benefits For You As A Spouse." <https://www.ssa.gov/planners/retire/applying6.html>

For divorcees:⁵¹

- You may qualify to withdraw an ex-spousal benefit if. . .
 - a. You were married for a decade or more
 - b. **and** you are at least sixty-two
 - c. **and** you have been divorced for at least two years
 - d. **and** you are currently unmarried
 - e. **and** your ex-spouse is sixty-two (qualifies to begin taking Social Security)
- Your ex-spouse does not need to have filed for you to file on his or her benefit.
- Similar to spousal benefits, you can qualify for up to half of your ex-spouse's benefits if you wait to file until your FRA.
- If your ex-spouse dies, you may file to receive a widow/widower benefit on his or her Social Security record as long as you are at least age sixty and fulfill all the other requirements on the preceding alphabetized list.
 - a. This will not affect the benefits of your ex-spouse's current spouse

For widow's (or widower's, for that matter) benefits:⁵²

- You may qualify to receive as much as your deceased spouse would have received if . . .
 - a. You were married for at least nine months before his or her death
 - b. **or** you would qualify for a divorced spousal benefit
 - c. **and** you are at least sixty

⁵¹ Social Security Administration. "Retirement Planner: If You Are Divorced." <https://www.ssa.gov/planners/retire/divspouse.html>

⁵² Social Security Administration. "Survivors Planner: If You Are The Worker's Widow Or Widower." <https://www.ssa.gov/planners/survivors/ifyou.html#h2>

d. **and** you did not/have not remarried before age sixty

- You may earn delayed credits on your spouse's benefit *if* your spouse hadn't already filed for benefits when he or she died.
- Other rules may apply to you if you are disabled or are caring for a deceased spouse's dependent or disabled child.

Longevity

On average, women live longer than men. Most stats put average female longevity at about two years more than men. But averages are tricky things. An April 2022 report by the World Economic Forum listed the eight oldest people in the world to all be women. They ranged in age from 118 years old to 114 and included two Americans.⁵³

On one hand, this is a Rosie the Riveter moment. How fabulous are women? On the other hand, this reveals longstanding financial ramifications.

Simply Needing More Money in Retirement

Living longer in retirement means needing more money, period. Barring a huge lottery win or some crazy stock market action, the date you retire is likely the point at which you have the most money you will ever have. Not to put too grim a spin on it, but the problem with longevity is, the further you get away from that date, the further your dollars have to stretch. If you planned to live to a nice eighty-something but live to a nice one-

⁵³ Martin Armstrong. World Economic Forum. April 29, 2022. "How old are the world's oldest people?" <https://www.weforum.org/agenda/2022/04/the-oldest-people-in-the-world/>

hundred-something, that is *two decades* you will need to account for, monetarily.

To put this in perspective, let's say you like to drink coffee as an everyday splurge. Not accounting for inflation or leap years, a \$2.50 cup-a-day habit is \$18,250 over a two-decade span. Now, think of all the things you like to do that cost money. Add those up for twenty years of unanticipated costs. I think you'll see what I mean.

More Health Care Needs

In addition to the cost of living for a longer lifespan is the fact aging, plain and simple, means more health care, and more health care means more money. Women are survivors. They suffer from the morbidity-mortality paradox, which states women suffer more non-fatal illnesses throughout their lifetime than men, who experience fewer illnesses but higher mortality.

Women have been found to seek treatment more often when not feeling well and emphasize staying healthy when older, according to studies.⁵⁴ So survival is on the side of the woman. However, surviving things, like cancer, also means more checkups later in life.

A statistical concern for women involves the prospect of long-term care. Long-term care for women lasts 3.7 years on average compared to 2.2 years for men.⁵⁵

Widowhood

Not only do women typically live longer than their same-age male counterparts, they also stand a greater chance of living

⁵⁴ advisory.com. July 22, 2020. "Why do women live longer than men? It's more complicated than you think." <https://www.advisory.com/en/daily-briefing/2020/07/22/longevity>

⁵⁵ Lindsay Modglin. singlecare.com. February 15, 2022. "Long-term care statistics 2022" <https://www.singlecare.com/blog/news/long-term-care-statistics/>

alone as they age. Some divorce, separate or never marry. Among those age sixty-five and over, 33 percent of women live alone compared to 20 percent of men.⁵⁶

I don't write this to scare people; rather, I think it's fundamentally important to prepare my female clients for something that may be a startling, *but very likely*, scenario. At some point, most women will have to handle their financial situations on their own. A little preparation can go a long way, and having a basic understanding of your household finances and the "who, what, where, and how much" of your family's assets is incredibly useful—it can prevent a tragic situation from being more traumatic.

As if to underscore the point, the financial services industry often underserves women in these situations, consider this statistic: 80 percent of widows switch financial advisors within a year after their spouse dies.⁵⁷ In my opinion, this is because many financial professionals tend to alienate women, even when their spouses are alive. I've heard several stories of women who sat through meeting after meeting without their financial professional ever addressing a single question to them.

In our firm, when we work with couples, we work hard to make sure our retirement income strategies work for *both* people. No matter who is the financial alpha, it's important for everyone who is affected by a retirement plan to understand it.

Taxes

One of the often-unexpected aspects of widowhood is the tax bill. Many women continue similar lifestyles to the ones they

⁵⁶ statistica.com. November 23, 2022. "Share of senior households living alone in the United States 2020, by gender" <https://www.statista.com/statistics/912400/senior-households-living-alone-usa/>

⁵⁷ Stacy Francis. CNBC. November 22, 2021. "Op-ed: Recent widows need financial guidance after a spouse's death." <https://www.cnbc.com/2021/11/22/op-ed-recent-widows-need-financial-guidance-after-a-spouses-death.html>

shared with their spouses. This, in turn, means continuing to have a similar need for income. However, after the death of a spouse, their taxes will be calculated based on a single filer's income table, which is much less forgiving than the couple's tax rates. With proper planning, your financial professional and tax advisor may be able to help you take the sting out of your new tax status.

Caregiving

Caregiving.org updates its national report about every five years. According to its findings released in 2020, of the 53 million caregivers providing unpaid, informal care for older adults, 61 percent are women. Among today's family caregivers, 61 percent work and 45 percent report some kind of financial impact from providing a loved one care and support.⁵⁸

In addition to the financial burden created by caregiving responsibilities, women often devote many hours each day to duties such as housekeeping and looking after loved ones. So then, when can women find the time to focus long and hard on financial matters?

Unfortunately, the impact and hardships created by traditional roles for women typically do not account for Social Security benefit losses or the losses of health care benefits and retirement savings. This also doesn't account for maternity care, mothers who homeschool, or women who leave the workforce to care for their children in any way.

I don't repeat these statistics to scare you. Not only are unpaid family caregivers spending their time and energy taking care of others, but they're also putting their own money towards the cause. An AARP study found that three-quarters of family caregivers surveyed were spending an average of \$7,242 a year

⁵⁸ caregiving.org. 2020 Report. "Caregiving in the U.S. 2020."
<https://www.caregiving.org/caregiving-in-the-us-2020/>

on out-of-pocket caregiving costs.⁵⁹ Yet, I think the emotional value of the care many women provide their elderly relatives or neighbors cannot be quantified. So, to be clear, this shouldn't be taken as a "why not to provide caregiving" spiel. Instead, it should be seen as a call for "why to *prepare* for caregiving" or "how to lessen the financial and emotional burden of caregiving."

Funding Your Own Retirement

For these reasons, women need to be prepared to fund more of their own retirements. There are several savings options and products, including the spousal 401(k). Unlike a traditional 401(k), where you contribute money to a plan with your employer, a spousal 401(k) is something your spouse sets up on your behalf, so he or she can contribute a portion of the paycheck to your retirement funds. This is something to consider, particularly for families where one spouse has dropped out of the workforce to care for a relative.

Also, if you find yourself in a caregiving role, talk to your employer's human resources department. Some companies have paid leave, special circumstance, or sick leave options you could qualify for, making it easier to cope and helping you stay in the workforce longer.

Saving Money

Women need more money to fund their retirements, period. But this doesn't have to be a significant burden—most of the time, women are better at saving, while usually taking less risk

⁵⁹ Nancy Kerr. AARP. June 29, 2021. " Family Caregivers Spend More Than \$7,200 a Year on Out-of-Pocket Costs."

<https://www.aarp.org/caregiving/financial-legal/info-2021/high-out-of-pocket-costs.html>

in their portfolios.⁶⁰ This gives me reason to believe, as women get more involved in their finances, families will continue to be better-prepared for retirement, both *his* and *hers*.

⁶⁰ Maurie Backman. The Motley Fool. March 4, 2021. “A Summary of 20 Years of Research and Statistics on Women in Investing.”
<https://www.fool.com/research/women-in-investing-research/>

Finding a Financial Professional

I grew up on Martha's Vineyard (a small island off the coast of Cape Cod, Massachusetts). My family didn't have any money, so I went to school part-time and worked part-time. After two years, I had no idea what I wanted to do. Naturally, I became a ski bum.

I bought a van and traveled with a buddy of mine for a couple of years. Eventually, we landed in Colorado. While I was there, I started thinking more seriously about a career. I decided to attend the University of Massachusetts, and there I received a degree in environmental health.

Now, you're probably thinking, "How did a former ski bum with a degree in environmental health become a financial advisor?" That's where the story gets interesting.

Radiation protection was the focus of my studies, so I was geared for a job at a nuclear power plant—or so I thought. As it turned out, I entered the industry right as many nuclear power plants were shutting down. So . . . no job.

I thought to myself, "What now?" Little did I know, this turn of events would lead to one of my greatest passions in life.

I found an ad in a newspaper for a job as a management trainee with a big name insurance company. There I became a debit agent and later a sales manager. As I was working there, I didn't find a lot of fulfillment in what I was doing. So, I changed

jobs and went to work for a large property and casualty insurance agency. I established the financial services division within that agency. As I was working there, I knew I was approaching my lifetime career, but I hadn't quite reached it.

A few years later, I started my own insurance agency selling auto, homeowner's, and business insurance. I did that for about ten years, building it up as a viable business. Through this business I finally realized my passion was not for insurance—it was strictly for financial services.

So, I went back to my roots. I started a training program with a gentleman named Rick Metcalf (a man who really was instrumental in changing the dynamic of our industry). From that training and my other experience, I developed the skills I use as an advisor today—skills honed specifically for retirement income planning.

Now, I apologize for having bored you with the details of my professional career. But here's my point: I have found financial advising is my passion. In my life, I've seen, when a person is passionate about something—when his heart is in it—his performance increases exponentially.

Now, you've probably asked yourself at one time or another, "Why is finding a skilled financial professional so important? Can't I do my financial planning by myself?"

If the contents of this book haven't answered that question yet, think about this: If you broke your arm or your leg, who would you go to for help? Would you go to your neighbor who has no medical experience whatsoever? Would you try to set your broken bone and put a cast on it yourself?

Of course not!

You would go to a doctor, someone who is specially trained to fix your problem. This reality in the world of health is similar to the world of finance in some ways. Because of the complexities of Social Security laws, tax laws, pensions, and everything else, most of us need help. It's just about impossible to know all the laws, rules, and regulations that could impact you and your retirement plan. As we have discussed, a good financial planning team is invaluable. I feel strongly that you

need a good tax professional who can help you understand tax law, a good attorney to help you with legal documentation, and a good financial advisor you can trust.

Humans tend to make things more complicated than they need to be. I see this all the time in the financial world. Over the years, it seems our financial system continues to grow more and more difficult to understand. Similar to the world of technology, where there are computers and smartphones with more bells and whistles than you can count, the world of finance now includes a wide array of products with more features than ever. This increasing complexity, compounded by changes in longevity and other factors we've discussed, make the need for a financial professional that much greater.

If I've been able to convince you by now that help is valuable, what can you do to find the right financial professional for your situation?

If I were in your shoes, the first thing I would do is visit finra.org. This website offers a free tool to research the background of financial brokers, advisors, and firms. I would shop around in my area and ask friends and relatives. Then, check the credentials of the people they recommend. Once you find an individual or firm that looks promising, evaluate their designations and licenses. Do they have any complaints filed against them? If complaints were filed, how were they resolved? There are lots and lots of places to find financial advisors, whether it's with a large brokerage operation, a bank, or an independent insurance agent. Wherever you look, make sure you do your homework.

Now for some red flags to watch out for: Financial professionals who emphasize a "one size fits all" policy typically aren't willing to adapt to your unique circumstance. That can create problems. Also, there are many professionals who only talk about "growth, growth, growth." Someone who is only focused on growth will not be skilled in ensuring your assets are protected.

Okay, now what about monetary compensation? Financial professionals get paid in a variety of ways or in a combination

of ways. Individual advisors and firms differ when it comes to rates and payment plans. This is a front on which you as the consumer must be especially cautious. Be comfortable asking a lot of questions about what and how you will be paying your advisor.

While throughout this book I have tried not to make my opinions seem dogmatic, I do welcome you to seriously consider us as a group that can help you make responsible choices in planning for your retirement. But, that was not the point of this book. There are many well-qualified advisors out there. The key is to pick one. We all work for decades in preparation for retirement; don't undermine yours by neglecting to plan.

Some areas I suggest you consider: Focus on establishing a reliable stream of income. Focus on allocating funds into various "buckets" based on your risk tolerance. Account for the income needs of a surviving spouse. Protect assets from nursing homes. Avoid undue taxes. Eliminate unnecessary risk. And, please, make sure you have dependable income *for life*.

Take to heart the principles of planning outlined in this book. Then you can plan *responsibly* for retirement. Our future is full of mystery, unknowns, and an endless number of situations that could complicate our lives. But, when we think, plan, and put our minds to it, we can find ways to prepare. We don't have control over our future, but we do have control over how we plan and prepare. Be proactive. Take action. Plan responsibly. You *can* face your retirement future with confidence!

DALE A. FRANK

About the Author



Dale A. Frank and Dale A. Frank Financial Group
President & Founder

Dale is passionate about providing financial strategies that help clients take steps toward their retirement dreams.

Over three decades ago, Dale had a vision he would someday help clients learn to balance risk with the potential for reasonable rates of return in order to keep more of their hard-earned investment capital. He founded Dale A. Frank Financial Group based on this conservative philosophy, and now, he and his fellow professionals use their years of experience to help their clients gain confidence in their financial futures.

Dale has thirty-six years of experience in the insurance and annuity industry and has been featured on WHYN AM radio.