How To Avoid Retirement Risks And Uncover Unique Opportunities

Today's retirees have greater challenges than generations past. With retirement expected to last some 20-30 years and no pension, only Social Security and personal savings, one mistake can cost you thousands. It can also mean the difference between having your money lasting as long as you do, or running out of money before you run out of retirement.

This book is based on the experience of AAA Retire. With over a century of combined experience, the Retirement Income Coaches© at AAA Retire have helped hundreds retire confidently.

You have one shot to get it right. When you quit your paycheck to retire, you want the confidence to know you have a plan in place, a road map to success. The advisors as AAA Retire offer a personalized analysis to help those about to retire or are currently retired look into the future and visualize their outcome.

Why guess when you can know what the best retirement planning decisions are. This book is designed to provide a quick overview of the challenges and the opportunities retirees face. It also offers time tested strategies for successful retirement planning.

How To Avoid Retirement Risks And Uncover Unique Opportunities

Whether you choose to go it alone or work with an advisor you will face the same challenges:

Outliving your money

Stock market losses

Low-interest rates

Few investment choices to match asset protection with growth

Determining how to safely withdraw from retirement savings

How will the rising cost of living affect my money?

How to protect money from the nursing home

This report will help you better understand these challenges and begin the education process to successfully plan for them. When it comes to retirement challenges, making educated choices will benefit you now and for years to come.

What is your greatest retirement fear?

x x x

A recent survey found that 61% of retired or retiring Americans are more afraid of running out of money than dying*. The fear of consuming all of your retirement assets before retirement ends can cause many sleepless nights. What can cause a retiree to spend all of their money? Stock market losses (including both stocks and bonds), inflation and health care costs just to name a few. Another fear of retirement is losing your independence. Facing these challenges in an educated and thoughtful way can help you gain peace of mind.

*The 2Q11 Sunamerica Retirement re-set™ Study

Retirement, the "golden years", dreams of living out your life comfortable and worry free. Unfortunately, for many nearing retirement, it is the most exciting and most terrifying time in their life. They need to make decisions on Social Security, Medicare and distribution of assets. These decisions could have a lifelong impact.

With the current retiree expecting to live well into their 80's and 90's, making your money last as long as you do has become an increasing challenge. The way a retiree plans for the "golden years" needs to change, but for many, it hasn't. This is verified by the fact that most retirees still apply for Social Security at age 62, without even considering a long term plan.

So the first challenge of retirement is, making your money lasts as long as you do.

What has made that an even greater challenge is a volatile stock market and low interest rates, for an extended period of time. For example, if you invested money in the S&P 500 in 2000 it would have taken you nearly 13 years to get a positive return on your money (not accounting for dividends).

Bank CD's are not much better. As of the date of this writing, the average 1 year CD according to bankrate.com is .85% and the average 5 year is 1.68%. When income taxes and inflation is accounted for, even a "safe money" account, will lose about 1.7% per year. Yes, that is a negative 1.7% on "safe money."

When it comes to creating a sustainable lifetime retirement income, there are a number of factors that need to be considered. In addition, it is important to know the pros and cons of where you invest your money. This report will help you with an overview of the challenges and opportunities of Wall Street, Main Street (the bank), and income insurance.

First Wall Street:

Let's talk about how the stock market works and how a person could lose big in the stock market when they are taking money out of the market to live on.

First, let's talk about averages. Let's look at a simple example. What are the averages of the following numbers:

7+0+7+0=
7+7+0+0=
0+7+0+7=
0+0+7+7=

If you said 3.5 then you are right, as far as the average goes. But, let's see how averages can work against you when you are in retirement. Let's say that you are earning an average return of 3.5% as illustrated above. We'll just look at two examples, based on a $100,000 account value and a $3,500 withdraw amount:

$100,000+7%-$3,500=$103,500+7%-$3,500=$107,245+0%-$3,500=$103,745+0%-$3,500=**$100,245**

So based on these sequences of returns with an average of 3.5% the ending value is 100,245

Now let's look at the same average but a different sequence:

$100,000+0%-$3,500=$96,500+0%-$3,500=$93,000+7%-$3,500=$96,010+7%-$3,500=**$99,230.70**

The same 3.5% average but a negative account value on one, and a positive value on the other!!

This is why many retirees will look at an investment statement and see an average return number that doesn't make sense when compared to the account value. So returns, or interest earned, from year to year (known as sequence of returns) plays a role in retirement income and investing, what else?

Negative Dollar Cost Averaging:

There is a theory called negative dollar-cost averaging. We will do our best to explain this theory and how it hurts retirees. When a person is accumulating money for retirement, the ups, and downs of the stock market benefit from dollar-cost averaging based on consistent investments.

To make the math easy, let's say that a person is investing $100 per month into their favorite mutual fund. The fund is selling for $20 per share, so their $100 is buying shares. If the stock market goes down and the person continues to invest $100 per month, they will buy more shares for their $100. For example, if the mutual fund shares go down to $10 per share, they will be buying 10 shares with their $100. If the shares go back up, which is usually what the stock market does, they now own 10 shares trading at $20 a share which they purchased for $10 a share, a good thing.

When a person is selling, not buying shares, the transaction works in reverse. So let's say a retiree needs $100 per month income. At $20 per share, they have to sell 5 shares to get the $100. If the stock market goes down and the mutual fund shares are now selling at $10 per share, they will have to sell 10 shares for the same $100 income. The difference when buying shares (or investing) versus selling shares (when income is needed) is that the investor does not get the benefit of a stock market rebound. The retiree sold their shares and spent the proceeds from the sale because they needed income to pay bills.

So, what works for accumulating money for retirement, hurts a retiree in retirement. The planning and expertise needed for retirement income is vastly different than that of accumulating (or investing) money for retirement.

What got you to retirement is vastly different than what will get you through retirement.

What Is The Cost of Loss?

Another aspect of the stock market that can hurt a retiree is the cost of loss. If an investment lost 50%, what would it have to earn to get back to even? Often, it is thought to be 50%, but actually, it is 100%. So, for example:

$10,000 investment
50% loss
$5,000 after loss
100% required or double the money to get back to $10,000

At an average of 7%, it would take over 10 years to get back to the original $10, 000 after a 50% loss. For an older retiree, that could be a lifetime. Many retirees do not have over a decade to get their money back.

It is important to note, that stock market corrections are a normal and historical part of the stock market cycle. According to research by Capital Group, declines for the S&P 500 index of -5-9% happen about three times a year, while a decline of -10% or more happens about once a year.

The Result Of Loss:

The result of loss is fear and uncertainty and inferior average rates of return. According to a Forbes article, *"Why The Average Investor's Investment Return Is So Low,"* the average rate of return is terrible. Here is what that article stated, "the average investor in a lend of equities and fixed-income mutual funds have garnered only a 2.6% net annualized rate of return for the 10-year time period ending Dec. 31, 2013."

The same "average investor" has not fared any better over a longer time frame. The 20-year annualized return for an "average investor" is 2.5%, while the 30-year annualized rate is just 1.9%. Wow!

The average investor exclusively investing in just fixed-income funds has had an even

worse experience. The annualized return is 0.6% over 10 years, 0.7% over 20 years, and 0.7% over 30 years."

One of the reasons for these terrible averages is fear. When the stock market goes down, the average investor gets out of the stock market and then doesn't get back in until the market has almost made a full recovery.

Having the ability and peace of mind to ride out the ups and downs of the stock market will enable a retiree to improve their overall investment returns, while at the same time, get the income they need to live out their "golden years."

How Much Should I Withdraw From My Retirement Assets?

What some investment advisors have suggested is a 4% withdraw rate from a retirement account to ensure a lifetime of income. The challenge has been the stock market volatility and persistently low-interest rates. The result is that Wall Street has had to adjust that rate to 2.5-3%. What does that mean in dollars and cents? If a person had $1,000,000 (which many do not), they could only withdraw $25-30,000 per year to ensure about a 90% chance of not running out of money.

The new withdraw rule of thumb has caused many retirees to panic about their income need, versus an advised withdraw rate. Also, there is a growing concern of running out of retirement assets and living in poverty.

How Can A Retiree Help Ensure A Lifetime of Income?

A well-diversified retirement income plan should have all three of these components: the bank, insurance, and Wall Street. This will generally generate more income safely.

Having an account for liquidity needs that will not penalize you if you need your money quick, one that will grow over the long hall to ride out the ups and downs of the equity markets, and one that will give you guaranteed retirement income. This combination will help to give a retiree more income with better long-term results, and peace of mind having replaced the monthly paycheck that was given up when they

stopped working. By using all three of the account options, a retiree can have some peace of mind regarding their money lasting as long as their retirement does.

A Lifetime Annuity Income:

When the average person hears the word annuity they conjure up all sorts of negative thoughts and emotions. But, the reality is social Security is a lifetime cost of living adjusted annuity. For most retirees, they fail to get the most out of their annuity income from the Social Security system because of poor planning.

By taking Social Security as their parents did, at the earliest possible time, they lose out big on Social Security income. This is especially important today. As mentioned earlier, the average retiree will spend 20-30 years in retirement, far longer than generations prior.

By taking Social Security at age 62, the average retiree, depending on when they were born, locks in up to a 33% reduction in lifetime income as compared to full retirement age income and up to a 76% reduction from the maximum Social Security income. In addition, the cost of living adjustments are less because they are based on a smaller number.

What does this mean in real retirement savings? As discussed earlier, a retiree shouldn't withdraw more than 2.5-4% of their retirement portfolio to have a high probability that their retirement investments last as long as they do. We will use the number 3.25% for sake of example. If a retiree received $500 more in Social Security, because of planning versus just taking income as the "average" retiree does, a retiree would have to have $184,615.38 in retirement assets to equal the $500 per month income. How many years would it take to save $184,615.38?

The bottom line is, planning on how to take Social Security, can make a big impact on lifetime retirement income results. A retiree **MUST** get a Social Security analysis before they apply for their benefits.

The Silent Money Killer:

Another reason for having this diversification is to protect you from the silent money killer, inflation. If you do not have an account that will grow to provide for the increasing cost of living, you will have to withdraw more money and run the risk of depletion. What do we mean by inflation? Well, let's look at a few well known examples, here's the average cost of some items in 1960:

Cost of a new home:	$16,500.00
Cost of a first-class stamp:	$0.04
Cost of a gallon of regular gas:	$0.31
Cost of a dozen eggs:	$0.57
Cost of a gallon of Milk:	$0.49

You know what these items cost today. If you don't, just take a trip to the grocery store and you see what inflation does to your money.

Planning for these increases is critical, especially when retirement could last 20-30 years. An account that can benefit from the long term growth of the stock market, while at the same time be able to absorb the ups and downs, will help to keep up with the rising costs of things a retiree buys.

A Retirees Largest Expense Threat:

Health care is an expense that is most affected by inflation for a retiree and may, in fact, be their largest expense. In fact, according to the Social Security Administration, Health Care could run nearly 15% of a retiree's income.
As of this writing, the estimated average annual out of pocket health care cost for persons age 65 is $5,210. At age 85 it is expected for that to jump to $18,360*

Of course, as many know, these costs can be much higher; especially if a retiree takes expensive medications. One of the most catastrophic ways retirement assets can be lost is a long term health care expense. Depending on where you live, the annual costs for

* Source: Source: J.P. Morgan Asset Management. *Guide to Retirement℠–2018 Edition*– Page 30.

nursing home costs can be as high as $150,000 per year. How can a retiree manage these expenses?

The first way is to purchase a good Medicare supplement or Medicare Advantage plan. For example, Medicare part B pays only a portion of "the approved charges" for medical services. When Medicare decides that a service is covered, it determines the approved charges for it. Part B medical insurance, then usually pays only 80% of those approved charges: you are responsible for the remaining 20%. This could be thousands of out of pocket dollars. A good policy will cover those costs.

For long term care, a long-term care insurance policy is the best way to cover those costs, but it is not always attainable or affordable. Recently, certain types of life insurance also provides long term care (chronic or critical illness) benefits. If you currently own life insurance, it may be wise to see if you can upgrade to one of these plans.

Legal estate planning can protect money from this significant liability to retirees' assets. Without proper planning, a person in the nursing home or getting care at home can only keep $1,600 of all their assets before they qualify for Medicaid. With proper planning, significantly, more money can be protected.

<u>In Summary:</u>

Retiring today is much more difficult than generations past. Today's retiree does not have a pension, so they must self-manage their retirement income AND make it last longer than ever before. With historically low-interest rates and equity markets increasing in volatility, the challenge has become even more daunting. However, with proper planning and utilizing the strengths of all investment options; the bank, guaranteed income contracts, and Wall Street, a retiree can have a sustainable, dependable lifetime inflation-adjusted income.

Proper planning should also include an analysis of how to get the most out of Social Security. This cost of living adjusted income could be a source of great peace of mind for a retiree. In addition, it could provide income that a retiree could never replace with

retirement savings. A proper plan also accounts for inflation, the silent asset killer. One of the most impacted costs affected by inflation is health care costs. The cost of a nursing home could wipe out a retirees savings in a few months or years. Planning will help to protect a retiree's money from this threat.

Retiring can be the most exciting time in a person's life. It can also be one of the most terrifying. That is why working with a retirement income planning coach is so important. Someone that can help you address each of the issues discussed in this book, step by step.

Why guess when you can know what the future looks like. Take the first step by calling AAA Retire at 1-800-978-7953, for a complimentary analysis of your situation. Our time-tested personalized analyses can help you retire with confidence. These customized reports include:

- Social Security Timing Report – a personal best-claiming strategy
- Customized Retirement Income Plan – helping you see how long your retirement saving will last
- Long Term Health Care Asset Protection Plan – helping you to see what your true potential of loss is, due to extended long term health care costs

These reports will help to take the guesswork out of retirement planning and help you create a roadmap to success.

A Retirement Coach can help you navigate these challenges