THE 9 STEP RETIREMENT READINESS GUIDE

Helpful tidbits of sound advice to help you prepare for retirement.

THE PRICE GROUP
EVERYONE NEEDS A WEALTH COACH

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INTRODUCTION

How much time have you spent planning for family vacations, a wedding, your children's education, or your career? Why would you spend any less effort planning for your transition into retirement? The answer is that the subject matter is complicated, and it seems there are always more pressing items at hand.

Unfortunately, comprehensive planning is necessary for a successful retirement. The "good ole' days" when you could rely on Social Security and a company pension to cover your retirement expenses are a thing of the past.

Times have changed. Today, retirees are facing a more complex environment than ever with increased uncertainty.

RISKS OF RETIREMENT

Expected Lower Equity Returns

Let's take a quick quiz. On average, what rate of return do we expect stocks to deliver (dividends plus appreciation) over the next 10 years?

A. 5%
B. 7%
C. 9%
D. 11%

The answer is E. We do NOT know. Historically, the stock market has averaged approximately 8% over a long period of time but there have been decades of lower returns, and actually one decade (2000 – 2009), when stocks did not achieve a positive rate of return.[1]

History would suggest the next decade could produce lower investment returns than the long-term average. This is because the last 10 years have exceeded the average. A reversion to the mean is very possible.

Income Tax Uncertainty

Politicians are becoming increasingly polarized with their views about income tax rates. As Congressional partisanship grows, so too does the uncertainty about tax policy and resulting income tax rates. Translation - don't count on today's tax rates to be tomorrow's when formulating a retirement distribution strategy.

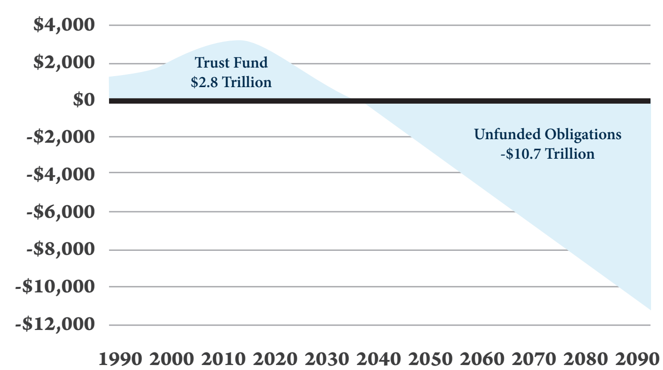
Rising Interest Rates

Bond prices and interest rates work like a see-saw – when interest rates move up, bond prices move down. Where do interest rates go from here? History tells us they could be moving higher. This could present a problem for conservative investors who have grown accustomed to a long period of increasing and stable bond prices.

The Future of Social Security

According to government estimates, Social Security funds are likely to be depleted by 2034. If significant changes are not made, future benefits could be reduced and possibly means tested.

Trust Fund Projections, 1990-2090
Present Value, Billions of 2015 Dollars



Sources: Social Security Administration, CRFB calculations

Rising Health Care Cost

According to a 2018 Fidelity healthcare study, the average couple will spend approximately $280,000 to cover health care expenses in retirement. Unexpected costs from illness, injury or simply growing older, could significantly impacts one's spending projections in retirement.

THE MISCALCULATION

46% of respondents estimated they would need less than $100,000 for health care costs in retirement

33% of respondents admitted to not having any idea of what their expenses could be in retirement

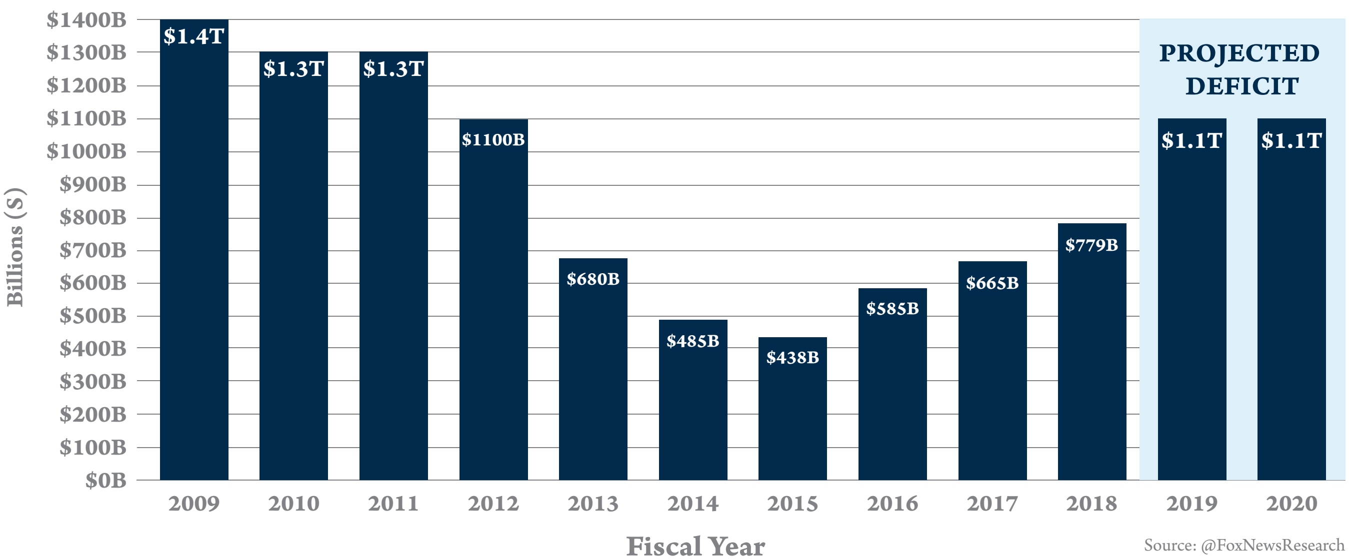
15%	16%	15%
less than $10,000	$10,000 to < $50,000	$50,000 to < $100,000

Source: Fidelity Investments "Bridging the Gap to Medicare" research.

Federal Deficits

According to the Treasury Department, the U.S. government has maintained financial records since 1789 (230+ years). From 1789 to 2009 (220 years), the government created $11 trillion of debt. From 2009 to 2018 (the last 10 years), they created another $11 trillion of debt – reaching a record $22 trillion.

Federal Government Budget Deficits



Source: @FoxNewsResearch

MARKET VOLATILITY

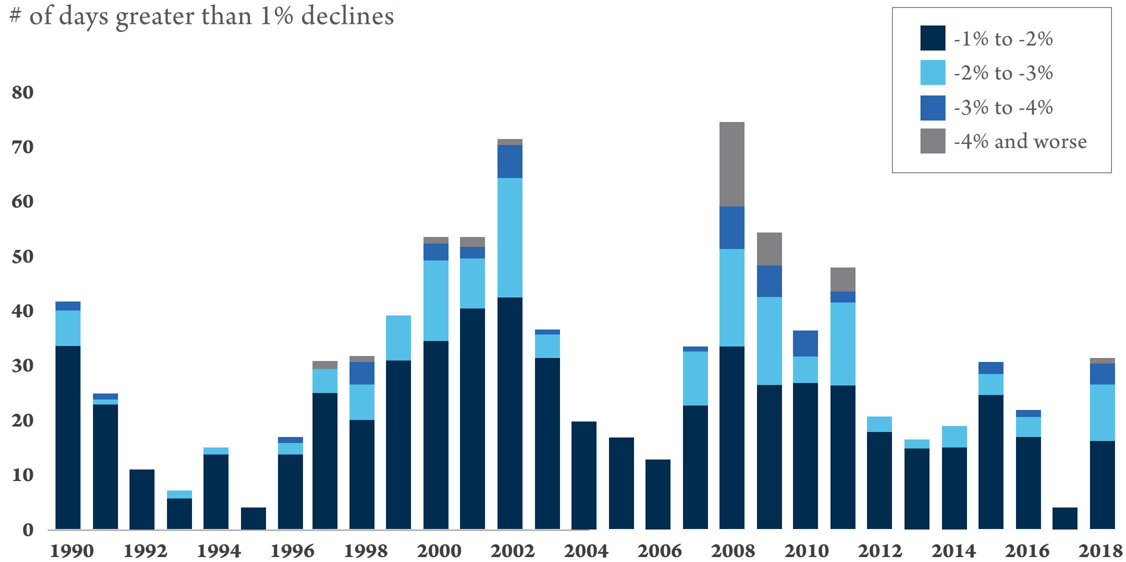
Volatility is here to stay. According to a recent study shown below, the S&P 500 was down by over 1% on 11.46% of all trading days since 1970. Historically, the stock market has a 10% pullback once a year and a 20% correction every 3.5 years. Volatility is a challenge even for the seasoned investor.

FACTS ABOUT THE S&P 500

- 10% pullback once a year
- 20% pullback every 3.5 years
- Down by 1% or more for 11.46% of the trading days since 1970

S&P 500 Declines by Intensity

of days greater than 1% declines



Source: RIMES as of 12/31/18

HOW DO WE FACE THESE UNCERTAINTIES?

The Price Group has prepared this guide to help you get retirement ready.

1) CREATE A RETIREMENT ROADMAP

Do you have enough saved to retire? If so, how long will your resources last? These are the two most common questions surrounding retirement.

A comprehensive financial plan is the foundation of a successful retirement. If the plan is not written down, it is not a meaningful plan. A successful retirement plan encompasses and coordinates all areas of your personal finances.

Tips from The Price Group

1. Retirement is not an event, it is an ongoing process.

2. Create a retirement roadmap for your family. We call our retirement roadmap a *Live Well Plan*. Our *Live Well Plan* includes cash-flow projections, and allows us to test adjustments in real time to predict your retirement readiness – making sure you are in the "green zone."

3. Develop your specific Family Index Number. This number represents the rate of return needed from your portfolio assets to achieve your goals and objectives with confidence.

"THE BEST WAY TO MEASURE YOUR INVESTING SUCCESS IS NOT BY WHETHER YOU'RE BEATING THE MARKET BUT BY WHETHER YOU'VE PUT IN PLACE A FINANCIAL PLAN AND A BEHAVIORAL DISCIPLINE THAT ARE LIKELY TO GET YOU WHERE YOU WANT TO GO." – **BENJAMIN GRAHAM**

2) PLAN FOR LIVING LONGER

A crucial variable to consider with retirement planning is your life expectancy. If you retire at age 60 and live to 100, your portfolio needs to last 40 years, which may be longer than your working career. While thinking about death is not the most inspiring of topics, it matters when planning for a viable retirement.

Life expectancy has been on the rise thanks to improvements in medicine and safety. This means that simply estimating your life expectancy based on the age of your parents and grandparents is unlikely to be a reliable guide. All things equal, you will likely live to be older than your parents and grandparents.

Age	Male	Female	Couple*
70	93%	96%	99%
80	71%	81%	94%
90	33%	44%	63%
95	16%	23%	36%

The "average" 65 year old today will live to be 85.
1 in 20 boomers will reach age 100.

Note: *Probability of one person living to this age
(Source: Annuity 2000 Mortality Table, Society of Actuaries)

Tips from The Price Group

1. We recommend planning for at least one spouse to live to age 90 and maybe longer.

2. Do not underestimate expenses. Give extra consideration to the probability of higher future healthcare costs.

3. Consider your family's life expectancy when projecting the duration of your retirement.

"THE LONGER YOU LIVE, THE LONGER YOU ARE EXPECTED TO LIVE." – **MATT W. PRICE, CFP®, CIMA®**

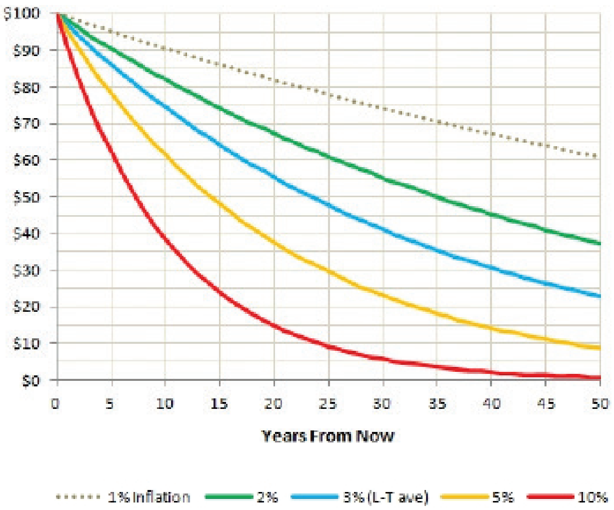
3) UNDERSTAND INFLATION

The rule of 72 is a fascinating topic. This simple calculation can help you determine how long it will take your cost of living to double. Take 72 and divide it by the estimated inflation rate. The answer will tell you how long it will take your cost of living to double.

For example, your cost of living will double in 24 years with a 3% inflation rate. At a 6% inflation rate, the cost of living would double in 12 years. Some retirees could see their cost of living double once or even twice during their retirement!

As you can see, inflation is an important variable to understand and keep in mind when planning your retirement.

Buying Power of $100



Tips from The Price Group

1. Make sure you are building in an inflation-raise for your estimated annual retirement expenses.

2. Be flexible with your inflation rate forecasts. We suggest running multiple cash-flow projections with different inflation rates.

3. Be wary of the government's definition of inflation. The government has taken food and energy out of their cost-of-living-adjustment (COLA) calculation. If you can find someone that does not eat or use energy, it could make sense to use the government COLA.

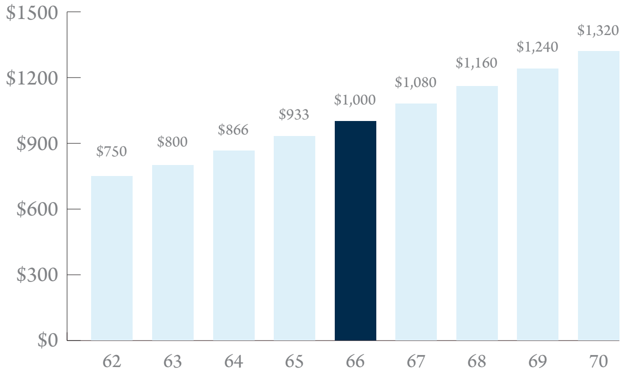
"INFLATION IN RETIREMENT IS LIKE A HIDDEN TAX".

– **MATT W. PRICE, CFP®, CIMA®**

4) MAXIMIZE YOUR SOCIAL SECURITY BENEFITS

There are more than 80 ways for a married couple to file for Social Security benefits. An error in this decision could cost you hundreds of thousands of dollars over your lifetime. Given the thousands of complex rules and hundreds of claiming options, creating a plan of action for Social Security can be a daunting and difficult task.

While the "best" age to begin benefits depends on individual circumstances, delaying benefits is often a better choice because your Social Security benefit increases 8% each year you delay past your full retirement age (FRA) until age 70 if born in 1943 or later.



Assuming full retirement age of 66.

Source: Raymond James Maximizing Your Social Security Retirement Benefits

Tips from The Price Group

1. Understand all of the variables that affect when and how to claim Social Security benefits.

2. Realize your Social Security estimate could overstate your actual Social Security benefit if you retire early.

3. Make an informed decision by running comparisons of lifetime income based on different life expectancies.

"TELL ME HOW LONG YOU ARE GOING TO LIVE AND I WILL TELL YOU EXACTLY WHEN TO TAKE YOUR SOCIAL SECURITY BENEFIT". – **RANDY R. PRICE, CFP®, CIMA®, CIMC®**

5) ANALYZE SPENDING PATTERNS

Estimating how much you will spend in retirement can be difficult. A recent study suggests you will probably spend 80% of what you spent during your working years.[2] While this does not apply to everyone, it is a good starting place to analyze your expected retirement spending.

Most people approaching retirement have heard about the "4% rule." This "rule" states you can withdraw 4% of your portfolio and have a high degree of confidence you will likely not exhaust your retirement funds. While this study comes from a reputable source[3], the case study was performed when interest rates were much higher. One could suggest that "3% is the new 4%" in this low interest rate environment.

35 Year Retirement

W/D Rate	100% Bonds	75% Bonds 25% Stocks	50% Bonds 50% Stocks	25% Bonds 75% Stocks	100% Stocks
3%	71%	100%	100%	100%	100%
4%	24%	69%	96%	93%	91%
5%	4%	18%	56%	67%	75%
6%	2%	4%	31%	53%	56%
7%	0%	2%	4%	35%	49%
8%	0%	0%	0%	22%	33%
9%	0%	0%	0%	2%	24%
10%	0%	0%	0%	0%	11%
11%	0%	0%	0%	0%	5%

Portfolio Success Rates. Inflation-Adjusted Withdrawals. For Various Withdrawal Rates, Asset Allocations, and Retirement Durations. Using Ibbotson's Stocks, Bonds, Bills, and Inflation Data, 1926–2017, S&P 500 and Intermediate-Term Government Bonds[4]

Tips from The Price Group

1. Aim to enter retirement debt-free to reduce the stress on your portfolio.

2. Set aside at least two years of estimated living expenses to ensure you do not have to sell a portion of your investment portfolio in a down market.

3. Do not overspend in retirement with the assumption that your portfolio will produce above average returns for the entire duration of your retirement.

"IT MAY NOT BE A ROMANTIC TOPIC BUT 54% OF COUPLES DISAGREE ON THE AMOUNT OF MONEY THEY WILL NEED TO RETIRE." – **MATT W. PRICE, CFP®, CIMA®**

6) PROMOTE INCOME TAX EFFICIENCY

Unlike your investments, income taxes are an important variable you can control. Some people make the mistake of thinking they will be in a lower tax bracket in retirement because they are no longer working. However, the opposite may be true if most of their money is sheltered in tax-deferred accounts (e.g. an IRA).

In addition, the level of your taxable income will affect the taxability of your Social Security payments and also premiums related to Medicare.

Tips from The Price Group

1. Consider Qualified Charitable Distributions (QCD) for a portion of your required minimum distribution (RMD) each year after you reach age 70.5. This allows you to give money to a qualified charity directly from your IRA and not pay any federal income tax.

2. Look at gifting appreciated shares of stock held in a taxable account to a charity as a way to help avoid capital gains tax.

3. Consider "bunching" deductions to be able to itemize every other year.

"TAX-EFFICIENT INVESTING IS VERY IMPORTANT BUT NEVER LET THE TAX TAIL WAG THE DOG WHEN IT COMES TO YOUR INVESTMENT PORTFOLIO." – **RANDY R. PRICE, CFP®, CIMA®, CIMC®**

7) STRESS TEST YOUR INVESTMENT PORTFOLIO

There are two questions to consider. First, can you emotionally handle the potential loss to your portfolio given your allocation to risk assets? Some clients cannot stomach watching their portfolio move lower when the stock market is down 10% or 20%. Second, can your retirement plan recover from a 40% downturn with its equity allocation?

Many investors mistakenly define success as beating some arbitrary stock market index. In retirement, the road to success comes by losing less in down markets and producing a stream of increasing income to provide for your retirement needs.

Returns Needed To Recover From An Investment Loss

	Withdrawal Rate and 3% Inflation			
Portfolio Loss	0%	4%	5%	6%
-10%	11.1%	19.8%	21.2%	22.6%
-20%	25.0%	35.5%	37.3%	39.2%
-30%	42.9%	56.1%	58.5%	60.9%

Percentages are derived by calculating the total loss by adding the withdrawal rate, inflation rate and portfolio loss and then comparing it to the value of the portfolio after portfolio loss and the withdrawal amount. *At the 0% withdrawal rate, inflation is not factored into total loss.

Tips from The Price Group

1. Determine your Family Index Number and take the least amount of investment risk necessary to achieve your retirement goals and objectives.

2. Consider owning dividend paying stocks for a portion of your equity allocation.

3. Have at least two years of living expenses set aside so you do not have to liquidate investment assets at the wrong time.

"THE ESSENCE OF INVESTMENT MANAGEMENT IS THE MANAGEMENT OF RISKS, NOT THE MANAGEMENT OF RETURNS." – **BENJAMIN GRAHAM**

8) PROTECT YOUR LEGACY

Do you have four updated estate planning documents for each spouse? If not, you are not alone. According to AARP, 60% of Americans do not have a will. Should those individuals die without creating a will, their estate would be considered intestate. That means the local probate court would make all decisions regarding their probate assets and how they are distributed to heirs. While it can be tempting to put off estate planning rather than having a difficult conversation with your loved ones about death and disability, it is important to be prepared.

"An ounce of prevention is worth a pound of cure" is very true when speaking about estate planning. Having the proper documents in place helps ensure your assets transfer as expected with minimum cost and stress to the family. No matter how large or small, everyone has an estate that should be protected.

Tips from The Price Group

1. Find an attorney with an expertise in estate planning to help create your personal estate plan.

2. Be sure each spouse has at least the four essential documents – last will and testament, durable power of attorney, living will, and a durable power of attorney for health care.

3. Understand the cost of probate for the state that you reside. Relatively speaking, Texas has a low cost of probate compared to other states.

"IF YOU HAVE A HEART ISSUE, YOU DO NOT WANT A DOCTOR WHO DOES GALLBLADDERS ON MONDAY, HIPS ON TUESDAY, AND HEARTS ON WEDNESDAY. YOU WANT A DOCTOR WHO FOCUSES ON HEARTS EVERY DAY. THE SAME LOGIC SHOULD APPLY TO YOUR ATTORNEY – YOU WANT SOMEONE THAT SPECIALIZES IN ESTATE PLANNING." – **RANDY R. PRICE, CFP®, CIMA®, CIMC®**

Tips from The Price Group

1. Consider purchasing long term insurance prior to retirement.

2. Consider your ability to self-insure.

3. Understand all of the policy's provisions and consider the inflation protection option.

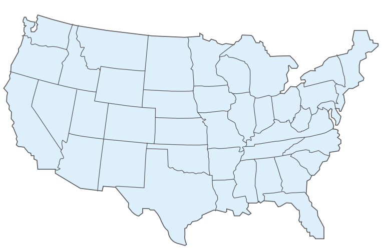
"LONG TERM CARE IS ABOUT LAYING OFF A RISK THAT YOU WOULD NOT BE ABLE TO AFFORD." – **MATT W. PRICE, CFP®, CIMA®**

9) PLAN FOR LONG-TERM CARE

According to the U.S. Department of Healthcare and Human Services, 70% of Americans over age 65 will require some type of long-term care. In fact, the odds of you needing long-term care are higher than the chances of you being involved in a car accident. You have several choices to prepare for your potential long term care needs including an insurance policy and/or a self-insuring plan. According to Genworth Cost of Care Survey, women need an average of 3.7 years and men need an average of 2.2 years of long term care coverage.

National Median Cost of Long-Term Care

2017



Assisted Living

$45,000 /YR

Nursing Home

$97,455 /YR

Source: Genworth Cost of Care Survey

CONCLUSION

While retirement readiness is no simple task, a comprehensive financial plan will help ensure you are as ready as possible when the time comes. We recommend starting this retirement planning process 3 – 5 years from retirement. You have worked too long and too hard over your career to leave your retirement planning to chance.

HAVE SPECIFIC QUESTIONS ABOUT YOUR RETIREMENT?

Give us a call at 281-612-3304 to set up an in-person meeting to create a *Live Well Plan* for your family.

The Price Group

Everyone needs a wealth coach

STEWARD PARTNERS GLOBAL ADVISORY

RAYMOND JAMES

Sources:

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