

**American Association of Individual Investors
Silicon Valley Chapter
presents
Financial Planning Workshop**

Managing Your Cash Flow in Retirement

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Financial Planning Workshops

- Fundamentals of Investing
- Building a Diversified Portfolio
- Introduction to Computerized Investing
- Active versus Passive Investment Strategies
- Retirement Planning
- >>>> **Managing your Cash Flow in Retirement**
- Safe Withdrawal Rates from your Retirement Portfolio
- Social Security and Medicare
- Estate Planning

Today we will cover ...

- **Income in retirement**
 - The traditional 3-legged stool
Social Security, Pension, Retirement portfolio
- **Managing your retirement expenses**
- **Other tools**
 - Reverse mortgages
 - Annuities
- **Protection for your retirement plan**
 - Long term care insurance
 - Liability insurance

Retirement Planning May Be An Oxymoron!

- **Accumulation phase: Straightforward planning**
 - Age, retirement date, \$ needed, saving rate, etc.
- **Distribution phase: Known unknowns**
 - Duration of retirement years
 - Average lifespan for 65 year old is 18 - 22 years
 - Return on portfolio
 - Sequence of returns risk
 - Effects of volatility on portfolio during drawdown
 - Increased medical expenses? Long term care?

Income in Retirement

- **The traditional 3-legged stool**
 - **Social Security**
 - **Pension**
 - **Retirement portfolio**

Social Security Retirement Benefits

- **Who is eligible?**
 - Must have worked at least 10 years
- **Full retirement age (FRA)**
 - 65 – 67 depending on date of birth
 - 66 for everyone born between 1943 and 1954
- **Primary Insurance Amount (PIA)**
 - This is what you receive if you retire at FRA
 - Based on average of 35 best work years

Early and Late Retirement

- **Early retirement**
 - Lose 6.3% per annum for each year prior to FRA
 - 75% of PIA at age 62
- **Late retirement**
 - Gain 8% per annum for each year worked after FRA up to age 70
 - 132% of PIA at age 70

Other Social Security Benefits

- **Spousal benefits**
 - Equivalent to half of working spouse's benefits
- **Survivor benefits**
 - Equivalent to benefit of higher earning spouse regardless of which spouse dies first
- **Miscellaneous Benefits**
 - Divorced spouse benefit
 - Child benefits
 - Disability benefits
 - Death benefit

Claiming Strategy #1

- **File Restricted Claim**
 - Spousal benefits only from FRA to age 70
 - Allows your benefits to grow 32%
 - Claiming spouse must have reached FRA
 - Working spouse must be receiving benefits already or have filed and suspended
- **New law: Bipartisan Budget Act of 2015**
 - Eliminates filing restricted claim for spousal benefits only except ...
 - ... if spouse reached age 62 before Dec 31, 2015

Claiming Strategy #2

- **File and Suspend**
 - **File at FRA and then suspend benefits to age 70**
 - **Allows worker's benefit to grow by 32%**
- **New law: Bipartisan Budget Act of 2015**
 - **Eliminates File and Suspend strategy except ...**
 - ... working spouse must be old enough to have filed and suspended before April 29, 2016**

Optimum Claiming Strategy

- **Optimum strategy for most married couples**
 - **Absent any unfavorable health or family history data ...**
 - ... **Maximize benefits for highest earning spouse**
- **Covered in detail in separate workshop later**
 - **“Social Security and Medicare”**

The Pension Leg of the Stool

- **Defined benefit (DB) pension plans**
 - **Funded by employer**
 - Annual contributions are required to maintain adequate percent funding level
 - **Risk borne by employer**
 - Employer responsible for pre-retirement inflation and for investment results
 - **Covered by the Pension Benefit Guaranty Corporation (PBGC), a federal insurance agency**
 - **Expensive to fund and administer**
 - Need actuarial service

Typical Defined Benefit Formula

- **Benefit formula usually based on a % of final salary (or 3-5 year average) times years of service i.e. “percentage-earnings-per-year-of-service” formula**
- **May be integrated with Social Security benefits**
- **Potential abuse of system by employee loading the last year(s) salary with excessive overtime, sick time, vacation time**
- **Also many government employers are unaware of value of a defined benefit plan**
 - e.g. It could cost \$1M to support a \$60K pension for life
- **Usually only available to public service employees**
 - **Most corporations have switched to a defined contribution plan**

Most Corporations have switched away from DB Plans

- **Defined contribution (DC) plans**
e.g. 401(k) and 403(b) plans
 - **Funded by employee with pre-tax contributions usually with a limited employer match**
 - **Employee bears the inflation risk and responsibility for the investment returns**
- **Treated as part of the retirement portfolio**

The Third Leg of the Stool Your Retirement Portfolio

- **Accumulation phase during working career**
 - Try to start saving early
 - Try to save 15% of your annual salary
 - Try to avoid “lifestyle creep”
- **Distribution phase during retirement years**
 - Bengen’s 4% rule
 - Bucket strategies
 - Discussed in detail in next month’s workshop “Safe Withdrawal Rates from your Retirement Portfolio”

Let's Look at Managing Your Retirement Expenses

- **First approximation**
 - **80% of final salary**
 - No contributions to retirement plan
 - No daily commute expenses
 - Lower taxes, etc.
- **But ...**
 - You may want to travel more
 - You may indulge more in expensive hobbies, etc.
 - Healthcare is unpredictable

Retirement Planning Software

- **Available from most financial houses**
 - T Rowe Price, Vanguard, Fidelity, Schwab, AARP, etc.
- **Inputs**
 - Marital status
 - Age, spouse's age, target retirement age, etc.
 - Income: Salary, Social Security benefits, etc.
 - Expenses: Fixed expenses, variable expenses
 - Portfolio size and return, inflation rate, etc.
- **Output**
 - Shortfall or surplus, required savings rate, etc.
 - Confidence level from Monte Carlo simulations
 - Remaining balance data

Full Custom Spreadsheet

- **Balance sheet (as of December 31, 2016 say)**
 - Investment assets and liabilities
 - Non-investment assets and liabilities
- **Income/expense statement (for year 2016 say)**
 - Recurring income and expenses
 - Non-recurring income and expenses
- **Run various “what if ...?” scenarios**
 - When should we retire?
 - Early or late Social Security benefits?
 - Can we afford to travel? etc., etc.

Balance Sheet

- **Investment assets**
 - Taxable accounts, Tax deferred, Tax exempt (Roth)
less liabilities: margin loans, etc.
equals Investment Net Worth
- **Personal assets**
 - Home, furnishings, cars, etc.
less liabilities: mortgage, car loans, etc.
equals Personal Net Worth
 - Do not include this in retirement withdrawal plans

Current Annual Income/Expense Statement

- **Income**
 - Salary
 - Social Security
 - Pension
 - Investment income etc.
- **Expenses**
 - Housing, mortgage, taxes, insurance
 - Utilities, transportation, food and clothing
 - Vacations, entertainment
 - Unaccounted for (UAF) etc.

Recurring and Non-Recurring Expenses “Sequence of Consumption” Risk

- **Recurring expenses**
 - Everything except
- **Non-recurring expenses**
 - Mortgage (may be paid off on 20xx ?)
 - Income taxes (may be lower in retirement ?)
 - Vacations (travel more in early retirement ?)
 - Health care (higher costs later?)
 - etc.

Full Custom Master Spreadsheet

- **Year, Age thru 100, Spouse's age**
- **Income: Salary, Social Security, Pension**
Investment income
- **Expenses: Recurring (utilities, food, clothing, etc.)**
Non-recurring: Mortgage, taxes, etc.
- **Portfolio balance**
Initial investment net worth (balance sheet)
+ Income - Expenses

Sample: John and Jane Doe

- John and Jane are each age 60
- Own their own home, Current value \$1M
Mortgage \$500K, last payment in 2029
- Total investment net worth \$1.7M
- John earns \$120K pa, hopes to retire at age 66
- Jane earns \$90K pa, hopes to retire at age 62
- Would like to travel extensively after retirement
- Both in good health, good family history

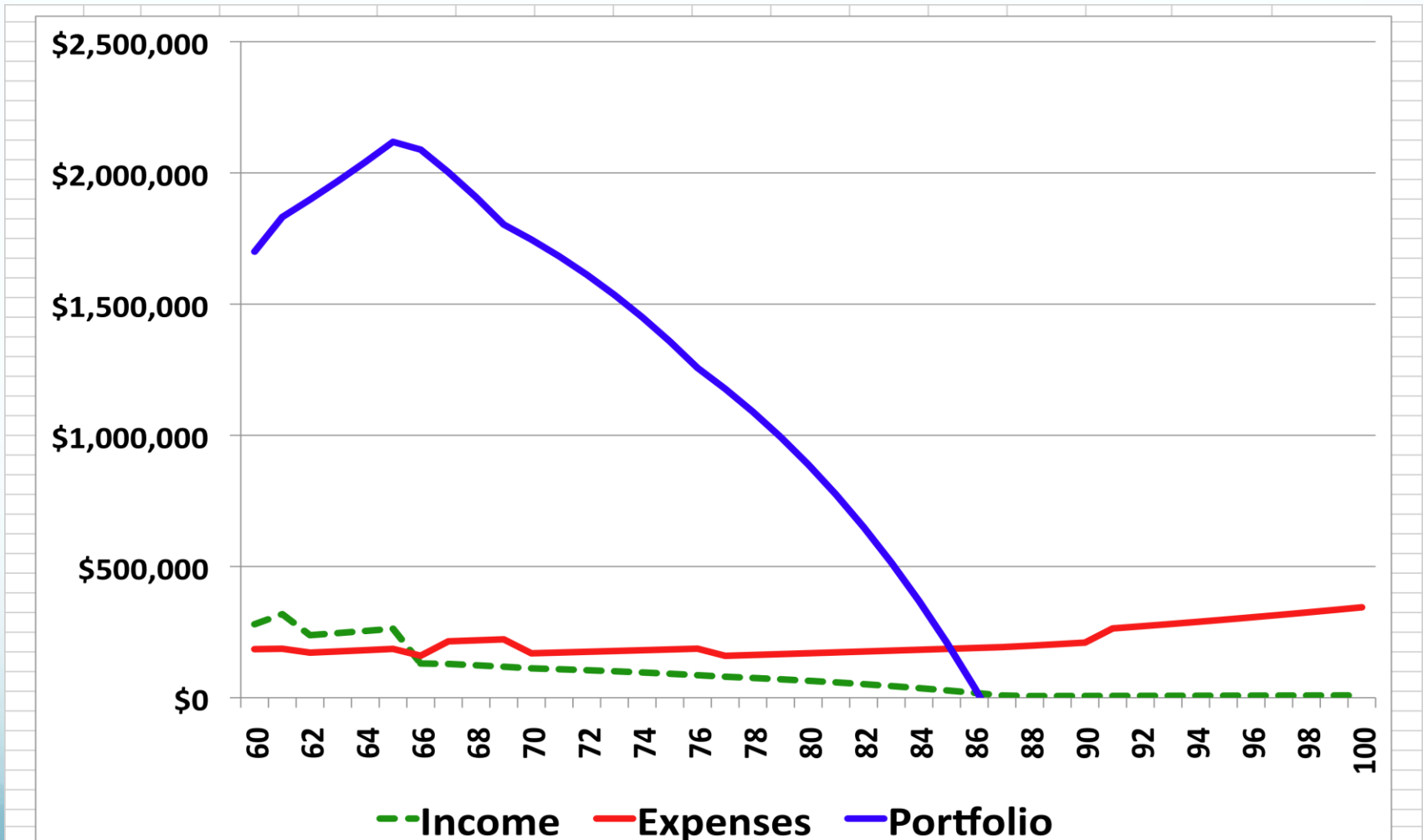
John and Jane's Master Spreadsheet

Excel spreadsheet available at www.siliconvalleyaaii.org

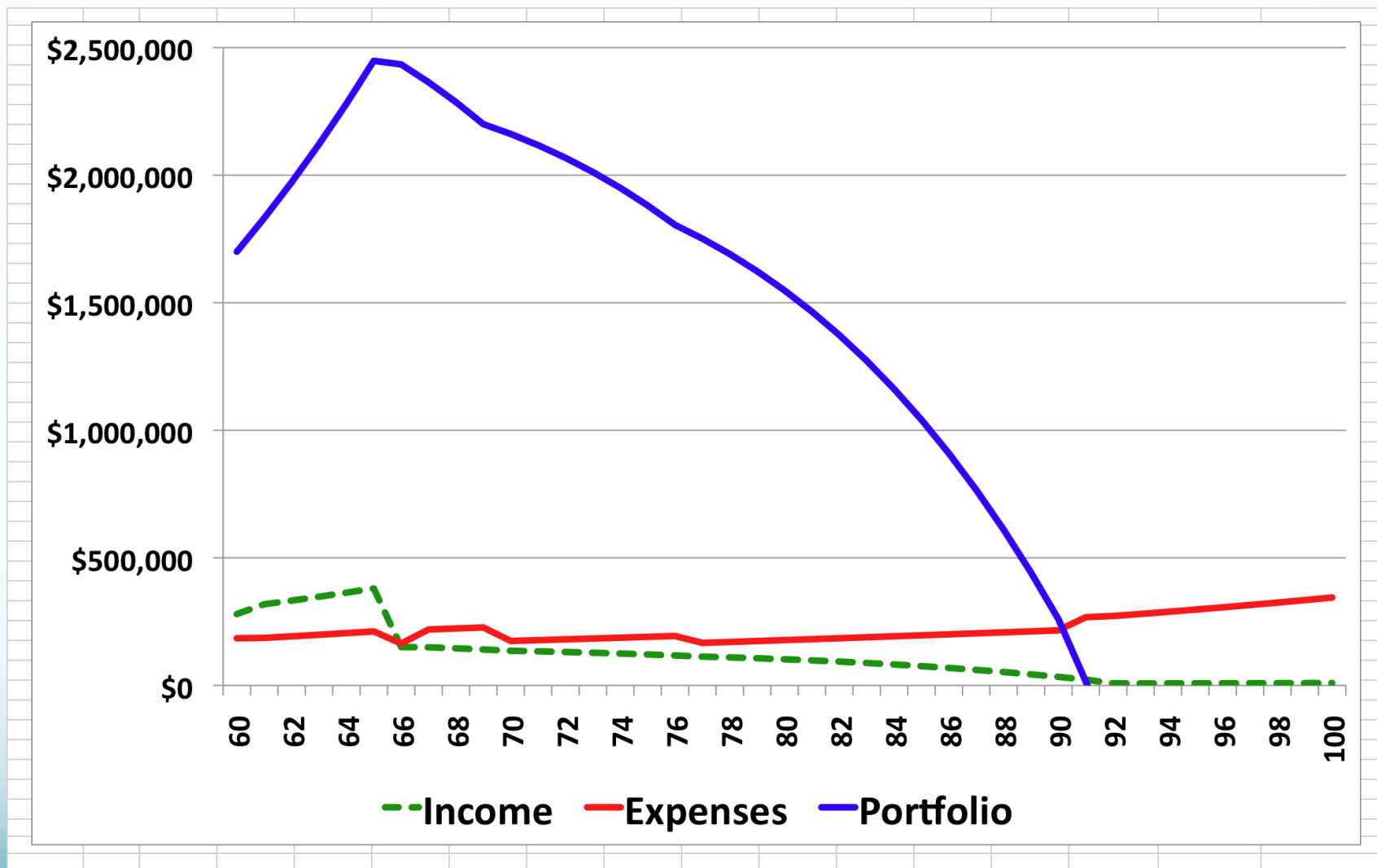
	Inflator:	3%	3%	3%	3%	6%	3%		3%		22%	3%		Portfolio	
Year	Age	John's Sal	Jane's Sal	John's SS	Jane's SS	Invest.Inc	Other Inc	Total Inc	Rec.Exp	Mortgage	Inc.Taxes	Other Exp	Total Exp	Surplus=Inv	Year End Bal
2015	60	\$120,000	\$90,000	\$0	\$0	\$70,000	\$0	\$280,000	\$85,000	\$24,000	\$71,000	\$5,000	\$185,000	\$95,000	\$1,700,000
2016	61	\$123,600	\$92,700	\$0	\$0	\$102,000	\$0	\$318,300	\$87,550	\$24,000	\$70,026	\$5,000	\$186,576	\$131,724	\$1,831,724
2017	62	\$127,308	\$0	\$0	\$1,125	\$109,903	\$0	\$238,336	\$90,177	\$24,000	\$52,434	\$5,150	\$171,761	\$66,576	\$1,898,300
2018	63	\$131,127	\$0	\$0	\$1,159	\$113,898	\$0	\$246,184	\$92,882	\$24,000	\$54,160	\$5,305	\$176,347	\$69,837	\$1,968,137
2019	64	\$135,061	\$0	\$0	\$1,194	\$118,088	\$0	\$254,343	\$95,668	\$24,000	\$55,955	\$5,464	\$181,087	\$73,255	\$2,041,393
2020	65	\$139,113	\$0	\$0	\$1,229	\$122,484	\$0	\$262,826	\$98,538	\$24,000	\$57,822	\$5,628	\$185,988	\$76,838	\$2,118,231
2021	66	\$0	\$0	\$2,000	\$1,266	\$127,094	\$0	\$130,360	\$101,494	\$24,000	\$28,679	\$5,796	\$159,970	-\$29,610	\$2,088,621
2022	67	\$0	\$0	\$2,060	\$1,304	\$125,317	\$0	\$128,681	\$104,539	\$24,000	\$28,310	\$57,964	\$214,813	-\$86,131	\$2,002,489
2023	68	\$0	\$0	\$2,122	\$1,343	\$120,149	\$0	\$123,614	\$107,675	\$24,000	\$27,195	\$59,703	\$218,573	-\$94,959	\$1,907,531
2024	69	\$0	\$0	\$2,185	\$1,384	\$114,452	\$0	\$118,021	\$110,906	\$24,000	\$25,965	\$61,494	\$222,364	-\$104,343	\$1,803,188
2025	70	\$0	\$0	\$2,251	\$1,425	\$108,191	\$0	\$111,867	\$114,233	\$24,000	\$24,611	\$6,334	\$169,178	-\$57,310	\$1,745,877
2026	71	\$0	\$0	\$2,319	\$1,468	\$104,753	\$0	\$108,539	\$117,660	\$24,000	\$23,879	\$6,524	\$172,062	-\$63,523	\$1,682,354
2027	72	\$0	\$0	\$2,388	\$1,512	\$100,941	\$0	\$104,841	\$121,190	\$24,000	\$23,065	\$6,720	\$174,974	-\$70,133	\$1,612,221
2028	73	\$0	\$0	\$2,460	\$1,557	\$96,733	\$0	\$100,750	\$124,825	\$24,000	\$22,165	\$6,921	\$177,912	-\$77,161	\$1,535,060
2029	74	\$0	\$0	\$2,534	\$1,604	\$92,104	\$0	\$96,241	\$128,570	\$24,000	\$21,173	\$7,129	\$180,872	-\$84,631	\$1,450,429
2030	75	\$0	\$0	\$2,610	\$1,652	\$87,026	\$0	\$91,287	\$132,427	\$24,000	\$20,083	\$7,343	\$183,853	-\$92,566	\$1,357,863
2031	76	\$0	\$0	\$2,688	\$1,702	\$81,472	\$0	\$85,861	\$136,400	\$24,000	\$18,889	\$7,563	\$186,852	-\$100,991	\$1,256,872
2032	77	\$0	\$0	\$2,768	\$1,753	\$75,412	\$0	\$79,933	\$140,492	\$0	\$17,585	\$1,513	\$159,590	-\$79,657	\$1,177,215
2033	78	\$0	\$0	\$2,852	\$1,805	\$70,633	\$0	\$75,290	\$144,707	\$0	\$16,564	\$1,558	\$162,829	-\$87,539	\$1,089,677
2034	79	\$0	\$0	\$2,937	\$1,859	\$65,381	\$0	\$70,177	\$149,048	\$0	\$15,439	\$1,605	\$166,092	-\$95,915	\$993,762
2035	80	\$0	\$0	\$3,025	\$1,915	\$59,626	\$0	\$64,566	\$153,519	\$0	\$14,205	\$1,653	\$169,377	-\$104,811	\$888,951
2036	81	\$0	\$0	\$3,116	\$1,973	\$53,337	\$0	\$58,426	\$158,125	\$0	\$12,854	\$1,702	\$172,681	-\$114,255	\$774,696
2037	82	\$0	\$0	\$3,209	\$2,032	\$46,482	\$0	\$51,723	\$162,869	\$0	\$11,379	\$1,754	\$176,001	-\$124,278	\$650,418
2038	83	\$0	\$0	\$3,306	\$2,093	\$39,025	\$0	\$44,424	\$167,755	\$0	\$9,773	\$1,806	\$179,334	-\$134,911	\$515,507
2039	84	\$0	\$0	\$3,405	\$2,156	\$30,930	\$0	\$36,491	\$172,787	\$0	\$8,028	\$1,860	\$182,676	-\$146,185	\$369,322
2040	85	\$0	\$0	\$3,507	\$2,220	\$22,159	\$0	\$27,887	\$177,971	\$0	\$6,135	\$1,916	\$186,022	-\$158,136	\$211,186
2041	86	\$0	\$0	\$3,612	\$2,287	\$12,671	\$0	\$18,570	\$183,310	\$0	\$4,085	\$1,974	\$189,369	-\$170,799	\$40,387
2042	87	\$0	\$0	\$3,721	\$2,356	\$2,423	\$0	\$8,499	\$188,810	\$0	\$1,870	\$2,033	\$192,712	-\$184,213	-\$143,825
2043	88	\$0	\$0	\$3,832	\$2,426	\$0	\$0	\$6,258	\$194,474	\$0	\$1,377	\$2,094	\$197,944	-\$191,686	-\$335,512
2044	89	\$0	\$0	\$3,947	\$2,499	\$0	\$0	\$6,446	\$200,308	\$0	\$1,418	\$2,157	\$203,883	-\$197,437	-\$532,948
2045	90	\$0	\$0	\$4,066	\$2,574	\$0	\$0	\$6,640	\$206,317	\$0	\$1,461	\$2,221	\$209,999	-\$203,360	-\$736,308
2046	91	\$0	\$0	\$4,188	\$2,651	\$0	\$0	\$6,839	\$212,507	\$0	\$1,505	\$50,000	\$264,011	-\$257,173	-\$993,481
2047	92	\$0	\$0	\$4,313	\$2,731	\$0	\$0	\$7,044	\$218,882	\$0	\$1,550	\$51,500	\$271,932	-\$264,888	-\$1,258,368
2048	93	\$0	\$0	\$4,443	\$2,813	\$0	\$0	\$7,255	\$225,448	\$0	\$1,596	\$53,045	\$280,090	-\$272,834	-\$1,531,203
2049	94	\$0	\$0	\$4,576	\$2,897	\$0	\$0	\$7,473	\$232,212	\$0	\$1,644	\$54,636	\$288,492	-\$281,019	-\$1,812,222
2050	95	\$0	\$0	\$4,713	\$2,984	\$0	\$0	\$7,697	\$239,178	\$0	\$1,693	\$56,275	\$297,147	-\$289,450	-\$2,101,673
2051	96	\$0	\$0	\$4,855	\$3,073	\$0	\$0	\$7,928	\$246,354	\$0	\$1,744	\$57,964	\$306,062	-\$298,134	-\$2,399,806
2052	97	\$0	\$0	\$5,000	\$3,166	\$0	\$0	\$8,166	\$253,744	\$0	\$1,796	\$59,703	\$315,243	-\$307,078	-\$2,706,884
2053	98	\$0	\$0	\$5,150	\$3,261	\$0	\$0	\$8,411	\$261,357	\$0	\$1,850	\$61,494	\$324,701	-\$316,290	-\$3,023,174
2054	99	\$0	\$0	\$5,305	\$3,358	\$0	\$0	\$8,663	\$269,197	\$0	\$1,906	\$63,339	\$334,442	-\$325,779	-\$3,348,952
2055	100	\$0	\$0	\$5,464	\$3,459	\$0	\$0	\$8,923	\$277,273	\$0	\$1,963	\$65,239	\$344,475	-\$335,552	-\$3,684,504

A Retirement Scenario for the Does

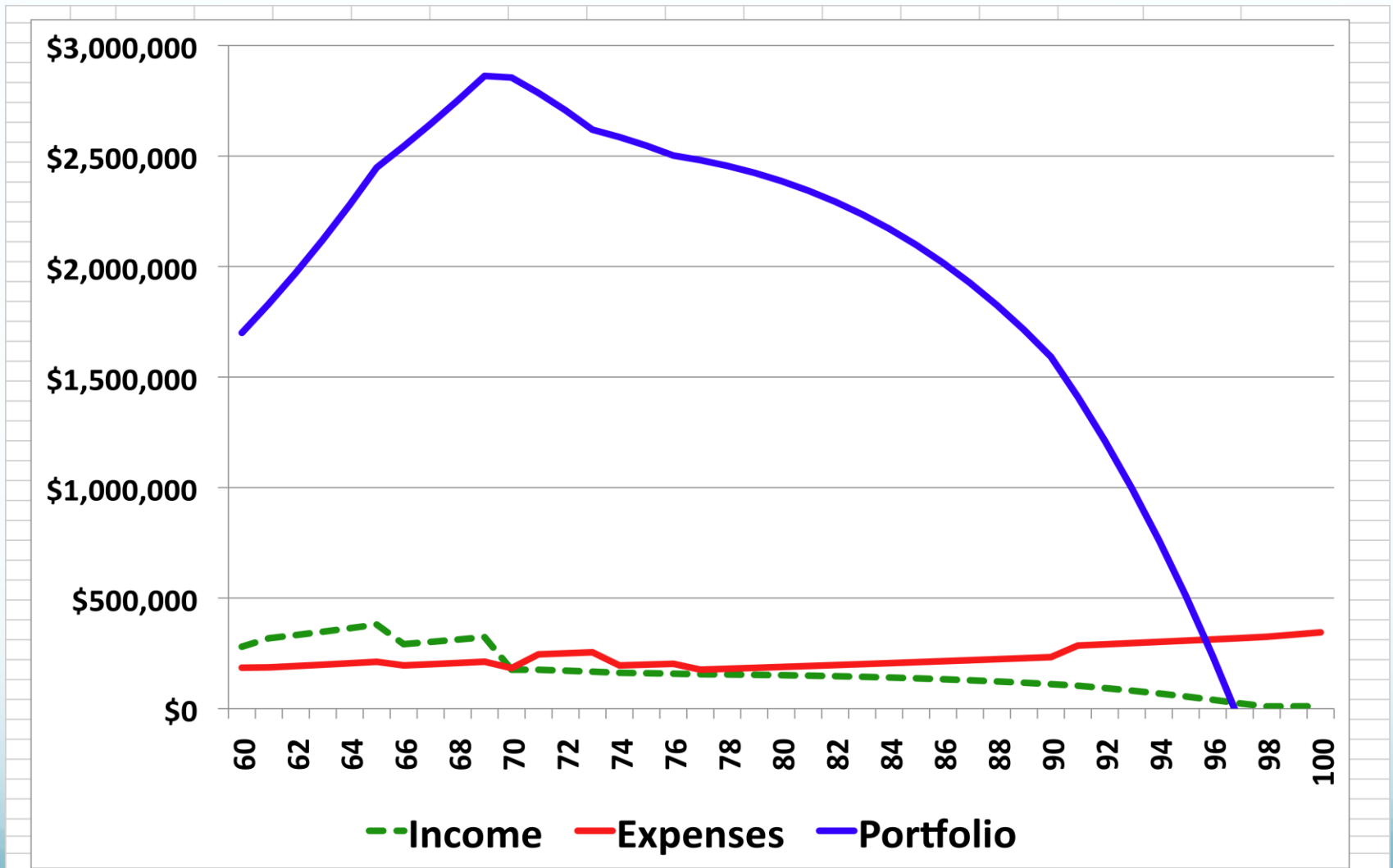
Jane retires at age 62 and John at age 66



John and Jane both retire at age 66



Jane retires at age 66 and John at age 70



Problems With All Retirement Planning Software

- **Beware precision output to 5 significant figures**
 - Garbage in ... Garbage out
- **Output is only as good as the input assumptions**
 - Life expectancy; actuarial tables only give averages
 - Rate of return assumptions for portfolio
 - Sequence of returns risk
 - Tax rate forecast in retirement
 - Inflation estimate
- **Compounding the “known unknowns” 35 years into the future is not an exact science!**

“Too err is human; to really screw up you need a computer!”

Best Uses for Retirement Planning Software

- **Learning tool**
 - Provides a feel for how all the pieces play together
 - Guides the safety first versus lifestyle trade-off
- **Scenario analysis**
 - What if I work for 2 extra years?
 - What if I delay taking Social Security benefits to age 70?
- **Sensitivity analysis**
 - What if the return on my portfolio is 5% instead of 7%?
 - What if inflation is only 2%? How about 4%?
- **Even a rough plan is much better than no plan**
 - Re-evaluate the plan annually

What If I Can't Stretch The Portfolio To Age 100?

- **Possible solutions to longevity challenge**
 - **Start saving earlier!**
 - **Save more during working years**
 - **Work longer**
 - **Reduce withdrawals**
 - Downsize home, move to a cheaper area
 - **Seek higher returns (more risk)**
- **Other possible solutions**
 - **Tap into home equity; Reverse mortgage**
 - **Buy insurance; Annuity**

FHA Reverse Mortgage for Seniors

- **Home Equity Conversion Mortgage (HECM)**
 - Insured by the Federal Housing Administration
- **Requirements**
 - Be 62 years of age or older
 - Own property outright or have significant equity
 - Occupy property as principal residence
 - Continue to pay property taxes, insurance, and maintain the property
 - Not be delinquent on any federal debt
 - Must undergo counseling, financial assessment

How Much Can I Borrow?

- **Maximum loan**
 - Lesser of appraised value or \$625,500
 - Adjusted for age of the youngest borrower and the interest rate
- **Form of loan**
 - Lump sum
 - Monthly payments
 - Line of credit (non-cancellable)
 - Combination of the above
- **Repayment due on sale, or death of owner**

Costs for a HECM

- **Interest, accumulates on loan**
- **Mortgage insurance premiums**
 - **Initial: Typically 0.5% of home value**
 - **Annual: 1.25% of outstanding loan balance**
- **Closing costs**
 - **Appraisal, title search, inspections, taxes, etc.**
- **Origination fee: 1% to 2% capped at \$6,000**
- **Servicing fees: Capped at \$35 per month**
- **Most fees rolled into loan; many waived by mortgage lender**

Benefits of a HECM Line of Credit

- **Converts home equity into easily accessible funds**
- **No monthly payments on principal or interest**
- **Lender cannot reduce or cancel line of credit**
- **Unused line of credit grows over time**
- **Non-recourse loan, i.e. can never owe more than the home is worth when the loan is repaid**
- **Can be converted to a monthly cash flow at any time**

Uses for a HECM Line of Credit

- **Defer Social Security benefits to late retirement**
- **Allows smaller short term cash bucket**
 - **Reduces opportunity cost of “dead money”**
- **Provides flexibility in long-term investment bucket**
 - **Reduces sequence of returns risk, i.e. need to sell assets in bear markets**
- **Can extend life expectancy of retirement portfolio**
- **Can provide living expenses if retirement portfolio is exhausted**

Risk Management

The Role of Insurance

- Insurance is inherently expensive
 - Actuarial cost of risk + Overhead cost + Profit
- Best for low probability risk, high financial cost
 - e.g. Homeowner's insurance, Term life insurance
- Least suitable for low cost high probability events
 - e.g. Vision care addition to health care policy
- Insurance contract transfers the risk for a fee
- Advantage of insurance company
 - Law of large numbers

Consider an Income Annuity

- **Single premium immediate annuity (SPIA)**
- **Supplement income for life**
 - **Living expenses less Social Security benefits, etc.**
- **Use balance of portfolio for discretionary spending**
- **Safety rating of insurance company is critical**
- **May want to consider charitable gift annuity to a nonprofit organization**
- **Most appropriate for middle income people**

SPIA Cash Flow Rate Estimates

Note that cash flow includes interest plus return of principal
Rates are for a married couple, both the same age

Source: www.ImmediateAnnuities.com on 2/7/16

Age	Male	Female	Joint
65	6.68%	6.40%	5.65%
70	7.80%	7.16%	6.26%
75	9.36%	8.47%	7.23%
80	11.34%	10.50%	9.50%
85	14.57%	13.57%	10.80%
90	20.35%	17.69%	14.16%

Longevity Insurance

- **Single premium deferred annuity (SPDA)**
Example: Purchase at age 65, defer income up to age 85
- **Cost is lower, i.e. cash flow rates are higher**
 - Insurance company has use of \$ for many years
 - Many purchasers will never collect payments
 - Collect payments for fewer years
- **Longevity insurance is not underwritten**
 - Use adverse selection to your advantage

SPDA Cash Flow Rate Estimates

Note that cash flow includes interest plus return of principal
Rates are for a married couple, both age 65 now

Source: www.ImmediateAnnuities.com on 2/7/16

Purchase Age	Start Age	Male	Female	Joint
65	70	9.70%	8.92%	7.74%
65	75	15.31%	13.64%	11.21%
65	80	35.05%	29.01%	21.09%
65	85	53.72%	43.71%	Call
65	90	102.35%	81.32%	Call

What Can Wreck Our Grand Plan?

- **Great retirement plan in place**
What could possibly go wrong?
- **Two potential train wrecks:**
 - 1. Long term care**
 - 1. Liability litigation**

Train Wreck #1: Long-Term Care

- **Assistance with the activities of “daily living”**
Bathing, continence, dressing, eating, toileting, transferring (cognitive impairment)
- **70% of people >65 will need LTC**
- **Costs >\$100K /year for assisted living facility**
Not covered by health insurance or Medicare

Projected Long-Term Care Needs for 65 Year-Olds

	<u>Men >65</u>	<u>Women >65</u>	<u>All >65</u>
% who will need care:	58%	79%	69%
Average # years:	2.2	3.7	3.0

Source: Kemper, Komisar, Alecxih research study, 2005

- **Greater need for women**
 - Live longer than men
 - Act as caregivers for men before their own needs
- **Need can be triggered by accidents, illness, dementia, etc.**

Progression of LTC Types

- **Assistance provided by friends/families**
- **Home visits by health care aides**
- **Adult day care centers, Community centers**
- **Assisted living, Continuing care retirement communities, CCRCs. Wide range of services**
- **Nursing homes for those needing extensive medical care**
- **Hospice**

Cost of Long Term Care

- **Costs vary widely across the states**
 - **Cheapest: Oklahoma, Missouri, Louisiana, Kansas**
 - **Expensive: East and west coasts**
- **Imperative to pick a highly-rated insurer**
 - **Check rating by Moody's, Standard & Poor's, Fitch**
- **Median cost of semi-private room is \$80K /year and average stay is 3 years**
- **If I can afford to budget \$250,000 to \$300,000 I can self-insure, right? WRONG!**

Long Term Care contd.

- **Must insure for worst-case scenario, not average**
 - **By definition it is always cheaper to self-insure on average**
- **How would your family handle your finances if you were unable to look after yourself for 20 years?**
 - e.g. mentally incapacitated but physically fit**
- **Need a policy with the longest term available**
- **Need inflation rider if possible**
- **Need coverage at home or in licensed facility**

Types of LTC Policies

- **Single-Life Long-Term Care Insurance**
- **Joint-Life Long-Term Care Insurance**
 - Cheaper than two single-life policies
 - Coverage limit is shared between the two spouses
- **Fixed Annuity with Long-Term Care Benefits**
 - \$ used for LTC come out of annuity payments
- **Life Insurance with Coverage for Long-Term Care Expenses**
 - \$ used for LTC come out of death benefit

Typical Cost Estimates for LTC Policy

Source: www.genworthltcquote.com

- Single applicant
 - \$200 per day
 - 90-day elimination period
 - 3-year benefit period (5-year typically 20%-40% higher)

<u>Age</u>	<u>No Inflation</u>	<u>5% Compound Inflation</u>
45	\$1,092 /year	\$2,232 /year
55	\$1,248 /year	\$2,592 /year
65	\$2,436 /year	\$4,356 /year
75	\$7,056 /year	\$10,728 /year

Techniques to Control the Costs

- Long term care insurance can be expensive, but ...
... there are ways to keep the costs down
 - Consider buying earlier in life
 - Consider longest elimination period offered
 - Consider insuring for half the daily rate
especially if you have maximized your Social Security benefit

Train Wreck #2: Liability Litigation

- **Umbrella insurance**
 - Coverage > Auto and/or Homeowner's policy limits
- **Protects against claims**
 - Bodily injury to others
 - Property damage
 - Lawsuits for slander, libel, mental anguish, etc.
- **Examples**
 - Your teenage driver at fault in freeway accident
 - A student dies on a class trip you are chaperoning
 - Your dog bites a neighbor's child, etc.

Who needs Umbrella Insurance?

- Probably anyone with assets greater than the liability limits of their auto/homeowner's policies
- Meets the useful insurance rule-of-thumb:
 - Low probability of occurrence of high cost risk
- How much coverage?
 - \$1M - \$2M minimum (incentivizes insurance company!)
 - \$2M - \$5M typical; Net worth +?
 - \$5M - \$10M maximum except for HNW people
- Cost: Approx \$150 - \$300 per \$1M per annum

Next Month We will Cover

- **Safe Withdrawal Rates from your Retirement Portfolio**
 - **Bengen's 4% rule and its variations**
 - **RMD strategy**
 - **Bucket techniques**
 - **Other withdrawal considerations**

Before Next Month's Workshop

- **Set up myAccount at the Social Security Administration website, www.ssa.gov**
 - **Check your past payment history**
 - **Review the projections for future benefits**
- **Can you live comfortably on your SS benefits**
 - + **pension (if any)**
 - + **2%-4% of your retirement portfolio?**
- **Consider a longevity annuity to cover fixed expenses**
- **Consider setting up a reverse mortgage line of credit**
- **Review your LTC and umbrella liability insurance needs**

To Probe Further

- **From Saver to Spender: Managing Your Money in Retirement, AAll Journal, May 2014**
- **Managing Cash Flow in Retirement, Harold Evensky and Deena Katz, AAll Journal, September 2014**
- **Retirement Planning: Focus First on Covering Fixed Expenses, AAll Journal, September 2014**
- **How to Make Your Money Last: The Indispensable Retirement Guide , Jane Bryant Quinn, Simon & Schuster, January 2016**
- **The Changes to Social Security Claiming Strategies, Charles Rotblut, AAll Journal, January 2016**
- **How Big is Longevity Risk?, Bob Collie, AAll Journal, October 2015**
- **What is a Longevity Annuity?, Stan Haithcock, AAll Journal, November 2014**
- **Long-Term Care of Your Personal Finances, Christine Fahlund, AAll Journal, January 2015**
- **How Much Umbrella Insurance Do I Need? David Marotta blog, August 2015**

Useful Websites

- www.aaii.com Broad selection of financial planning material
- www.siliconvalleyaaii.org Previous presentations on various topics
- [www.santaclaracountylib.org/Adults/Business & Money](http://www.santaclaracountylib.org/Adults/Business%20&%20Money)
- www.troweprice.com Retirement Income Calculator
- www.ssa.gov Social Security Admin. Set up *MyAccount* to review projections
- www.reversefunding.com Frequently asked questions on reverse mortgages
- www.weisswatchdog.com Weiss ratings for your insurance company
- www.immediateannuities.com Annuity quotes
- www.stantheannuityman.com General annuity information

Useful Websites ... continued

- www.aaltci.org American Association for Long Term Care Insurance
- www.longtermcare.gov Includes data on average costs
- www.genworthltcquote.com Get a Genworth quote for LTC policy.
- www.whatsmyliability.com Questionnaire with estimate of liability needs
- www.livingto100.com Calculates your life expectancy based on your inputs

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