Retirement:

Accumulation

Through

Distribution

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Fine Print: The information contained herein is not intended to be a recommendation to buy or sell ANY security or financial product.

Overview

- There’s nobody more interested in your financial future than YOU
- Retirement will be what you make it!
- Be sure you’ve covered the basics:
  - Will / estate
  - Insurance: home, car, life, medical, long term care
  - Cash / CD / I-bonds, Savings bonds, etc.

What is Retirement?

- It varies
  - No work
  - Part time work
  - Volunteer
- Retirement is…
  - Freedom
  - Financial Independence
  - Leisure
  - Travel
  - All of the Above and More

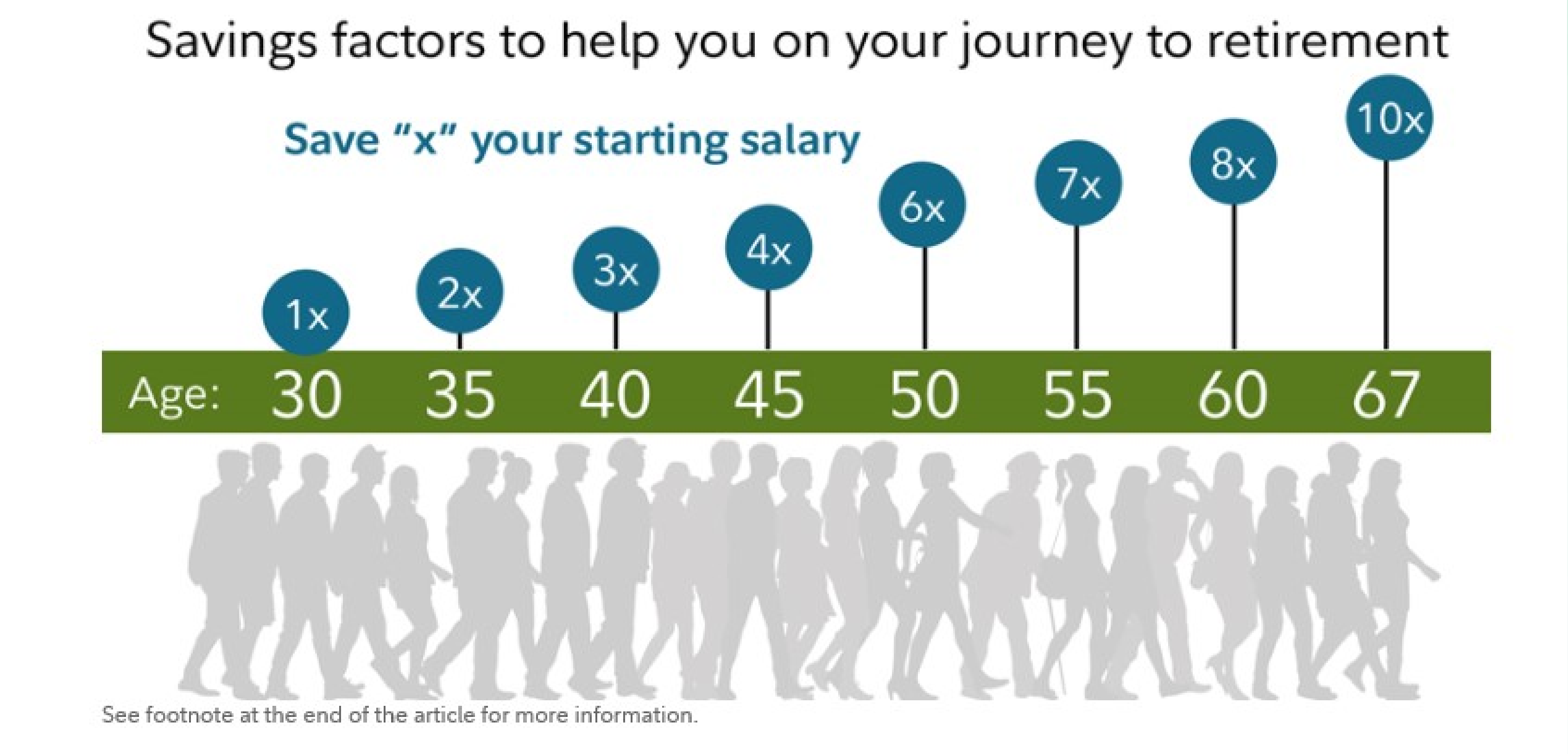
•Freedom to make your own choices

•Using your time wisely in ways that are meaningful to you

Plan Now… For Later

- How Do You Get There From Here?
  - Pay Yourself First - 10% - no ifs/ands/buts!
  - You must literally put the money away and pretend it does not exist
  - Start lower if you absolutely must
  - Increase the amount systematically
  - Go beyond 10% - you'll be surprised – it's easy
  - Don't miss out on FREE money in your 401k

Rule of Thumb from Fidelity



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The Fine Print

They're basically saying that in retirement you'll likely live on ~50% of your final salary

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

1. Fidelity has developed a series of salary multipliers in order to provide participants with one measure of how their current retirement savings might be compared to potential income needs in retirement. The salary multiplier suggested is based solely on your current age. In developing the series of salary multipliers corresponding to age, Fidelity assumed age-based asset allocations consistent with the equity glide path of a typical target date retirement fund, a 15% savings rate, a 1.5% constant real wage growth, a retirement age of 67 and a planning age through 93. The replacement annual income target is defined as 45% of pre-retirement annual income and assumes no pension income. This target is based on Consumer Expenditure Survey 2011 (BLS), Statistics of Income 2011 Tax Stat, IRS 2014 tax brackets and Social Security Benefit Calculators. Fidelity developed the salary multipliers through multiple market simulations based on historical market data, assuming poor market conditions to support a 90% confidence level of success.

These simulations take into account the volatility that a typical target date asset allocation might experience under different market conditions. Volatility of the stocks, bonds and short-term asset classes is based on the historical annual data from 1926 through the most recent year-end data available from Ibbotson Associates, Inc. Stocks (domestic and foreign) are represented by Ibbotson Associates SBBI S&P 500 Total Return Index, bonds are represented by Ibbotson Associates SBBI U.S. Intermediate Term Government Bonds Total Return Index, and short term are represented by Ibbotson Associates SBBI 30-day U.S. Treasury Bills Total Return Index, respectively. It is not possible to invest directly in an index. All indices include reinvestment of dividends and interest income. All calculations are purely hypothetical and a suggested salary multiplier is not a guarantee of future results; it does not reflect the return of any particular investment or take into consideration the composition of a participant's particular account. The salary multiplier is intended only to be one source of information that may help you assess your retirement income needs. Remember, past performance is no guarantee of future results. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns also will generally be reduced by taxes.

2. The 45% income replacement target assumes a retirement and Social Security claiming age of 67, which is the full Social Security benefit age for those born in 1960 or later. For an earlier retirement and claiming age, this target goes up due to lower Social Security retirement benefits. Similarly, the target goes down for a later retirement age. For a retirement age of 65, this target is defined as 50% of preretirement annual income, and for a retirement age of 70, this target is defined as 40% of preretirement income. As the income multiplier target is based on income replacement target and retirement age, for an earlier retirement age, this target goes up due to lower social security retirement benefits and a longer retirement horizon. Similarly, the target goes down for a later retirement age. For a retirement age of 65, this target is defined as 12x and for a retirement age of 70, this target is defined as 8x.

3. Fidelity analyzed the household consumption data for working individuals age 50 to 65 from Consumer Expenditure Survey, US Bureau of Labor Statistics. The average income replacement target of 45% is based on the objective of maintaining a similar lifestyle to before retirement. This target is defined at 35% for "below average" lifestyle and 55% of preretirement income for "above average" lifestyle. Therefore, the final income multiplier target of 10x the final income goes down to 8x for 'below average' lifestyle and increases to 12x for 'above average' lifestyle. See footnote 1 for investment growth assumptions.

Retirement savings factors are hypothetical illustrations, do not reflect actual investment results or actual lifetime income, and are not guarantees of future results. Targets do not take into consideration the specific situation of any particular user, the composition of any particular account, or any particular investment or investment strategy. Individual users may need to save more or less than the savings target displayed depending on their inputs retirement age, life expectancy, market conditions, desired retirement lifestyle, and other factors.

Votes are submitted voluntarily by individuals and reflect their own opinion of the article's helpfulness. A percentage value for helpfulness will display once a sufficient number of votes have been submitted.

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Getting Ready by thinking about…

- Retirement Income
  - Where will the money come from?
  - How do I minimize the impact of taxes?
  - What if I outlive my savings?
- Retirement Expenses
  - How much money will I need?
  - What insurance should I have?
  - What about inflation –especially medical costs?

When can I retire?

- Normal retirement – age 65
- Early retirement – *before* age 65
- Delayed retirement – *beyond* age 65

Retirement Income Sources

Employer Retirement Plan (pension)

401(k) Plan – rolled over to IRA

401(k) Plan – withdrawal if retired at age 55 or older

Social Security

Plans of previous employers

Spouse’s plans

IRAs (early withdrawal is available via **72(t)** rule)

Personal savings and investments

Home equity and real estate

Other assets

72(t) Rule

Substantially Equal Periodic Payments

The distribution will NOT be subject to the 10% additional early distribution tax in the following circumstances:	Exception to 10% Additional Tax		
	Qualified Plans (401(k), etc.)	IRA, SEP, SIMPLE IRA* and SARSEP Plans	Internal Revenue Code Section(s)
Age			
after participant/IRA owner reaches age 59½	yes	yes	72(t)(2)(A)(i)
Automatic Enrollment			
permissive withdrawals from a plan with auto enrollment features	yes	yes for SIMPLE IRAs and SARSEPs	414(w)(1)(B)
Corrective Distributions			
corrective distributions (and associated earnings) of excess contributions, excess aggregate contributions and excess deferrals, made timely	yes	n/a	401(k)(8)(D), 401(m)(7)(A), 402(g)(2)(C)
Death			
after death of the participant/IRA owner	yes	yes	72(t)(2)(A)(ii)
Education			
qualified higher education expenses	no	yes	72(t)(2)(E)
Equal Payments			
series of substantially equal payments	yes	yes	72(t)(2)(A)(iv)
ESOP			
dividend pass through from an ESOP	yes	n/a	72(t)(2)(A)(vi)
Homebuyers			
qualified first-time homebuyers, up to $10,000	no	yes	72(t)(2)(F)
Levy			
because of an IRS levy of the plan	yes	yes	72(t)(2)(A)(vii)
Medical			
amount of unreimbursed medical expenses (>7.5% AGI; after 2012, 10% if under age 65)	yes	yes	72(t)(2)(B)
health insurance premiums paid while unemployed	no	yes	72(t)(2)(D)

Equal Payments

series of substantially equal payments	yes	yes	72(t)(2)(A)(iv)

Tortoise Investments™ Retirement Approach

- Financial Independence: How Much Do Your Investments Need to Generate?
  - Calculate your annual expenses
    - Estimate if necessary but be realistic
    - Do not include income taxes
      - Keep it simple for now
      - Your tax burden will likely be less than you think
    - Subtract any fixed income payments you receive (SS and/or pension)
    - Apply the Factor of 20, 25 or 33

Tortoise Investments™ Retirement Approach

- **Factor of 20**:
  - You can live on 5% of your investments
  - Relatively aggressive
  - Requires some growth – bonds will not work
  - Typically applies to normal/delayed retirement
- **Factor of 25** (more conservative):
  - You can live on 4% of your investments
  - Typically applies to normal retirement
- **Factor of 33** (very conservative)
  - You can live on 3% of your investments
  - Typically applies to early retirement

Retirement Example

- Retirement Expenses: \$50,000/year
- Spouse Social Security / Pension: \$8,000/year
- Your Social Security / Pension: \$12,000

Thus \$50,000 - \$8,000 - \$12,000 = \$30,000

- \$30,000 X 20 (Factor of 20) = \$600,000
- The math isn't complicated at all
- Use Factor of 25 or 33 as appropriate

Expenses in Retirement

- Out-of-pocket medical expenses
- Health/Medicare premiums
- Life insurance
- Long Term Care Insurance
- Mortgage/rent
- Home maintenance
- Food/clothing
- Utilities
- Taxes
- Loan payments
- Personal care
- Transportation
- Travel
- Entertainment
- Hobbies/interests
- Gifts
- Other?

Retirement – The Key is Understanding Your Expenses

- Nobody knows for certain what their expenses will be in retirement
- A good approach is to know your expenses prior to retirement… down to the penny
- Then… estimate how your expenses will change when you are not working
- Finally, calculate your Factor of 20 number

Health Care – Start Planning Now

- Employer sponsored plan
- Medicare if you’re 65 or older
- Healthcare Exchange
- Sharing Ministries
- Can I afford retiree medical coverage?
  - particularly if I retire before age 65?
- Do I have other sources of coverage?
  - such as a spouse’s plan?
- Which is cheaper?
  - COBRA, retiree medical, individual plan

Next Steps

- Eliminate debt, build savings
- Update beneficiary, wills, trusts, advance healthcare directives
- Obtain Retirement Plan estimates if applicable
- Review 401(k) strategy, consider catch-up contributions
- Estimate future income and expenses
- Plan for your retirement by getting online investment advice from Financial Engines
- Contact Social Security to review estimated benefits

Plan to retire ***to*** something – not ***from*** something

- Read books on retirement … ahead of time
- Dream about how you want to spend your time
- Talk to others who have retired about their experiences
- Identify your passions … and ways to pursue them
- Decide on your “second act”
- Make a list of the things you have always wanted to do but couldn’t fit in

Living Simply in Retirement

- The Road to FI
  - Financial Intelligence
    - Understanding where money fits in your life
    - What is money “worth” vs. your life energy
  - Financial Integrity
    - Aligning your use of money with your values
    - What is “enough” vs. excess and clutter
  - Financial Independence
    - Sufficient sources of money for you to live
    - Crossover Point – more income than expenses

References

- *Your Money or Your Life*
  - by Joe Dominguez and Vicki Robin
- *Portfolio Life: The New Path to Work, Purpose and Passion After 50*
  - by David Corbett with Richard Higgins
- www.firecalc.com
- www.early-retirement.org
- www.mrmoneymustache.com
- www.72t.net (no longer active)
- 72(t) handbook available for $10 from
  - William J. Stecker themarblegroup@wispertel.net

Did You Make Money in the Recession of 2008 and Subsequent Years?

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Is This You?

- You probably lost money if you
  - “got out of the market”
  - “went to all cash”
  - “bought bonds”
  - “stopped contributing to your 401k/IRA”
  - “hoped CD rates would return”

Or Are You the Tortoise?

- Value declined but using dividend reinvestment provided an opportunity to buy
- Stay the course – a logical path makes good sense in good times and bad
- Dollar cost averaging / compounding
- Relatively predictable outcome

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Dividend Reinvestment

- It's a simple strategy
- Auto-pilot (to a great extent)
- Dividends are responsible for a significant portion of stock market "growth"
- Buy high quality stocks or Exchange Traded Funds (ETF) and watch compounding work!

Some History

- This discussion evolved for several reasons
  - Friends and family frustrated
  - Interest rates are so low, CD’s can’t pay the bills
  - Too many people listen to hyperbole rather than take time to understand their financial condition
  - Old-fashioned Tortoise Investments™ approach worked

Setting the Stage

- This is not intended to be a list of recommendations
- Rather, it's a real-world example of what occurred for several actual holdings in a given portfolio
- These holdings were purchased in 2004 and 2006 as the market was rising… not knowing what the future held
- Then the crash of Autumn 2008 into Spring 2009…
- Stay the course, you've defined the path, follow it

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Overview

- All dividends were reinvested
- Data shows positive growth for all holdings
- Dividends are significant
- The dividends can now be used to pay your bills

Details

- $10,000 invested in each of six holdings
- Grows to $206,940 in spite of recession
- Current (June 2019) dividends are $5,880 annually
- Yield based on amount invested 9.8%
- Current yield 2.8%

Yeah, But…

- You got lucky, this will never happen again
- History is not an indicator of the future
- I want big returns!
- You must be really smart, I can't do that
- That's too risky for me
- I don't have the money you have
- What? No technology stocks/funds
- I don't have time to wait for dividends to grow

Which Stocks / Funds?
Go Ahead and Tell Me!

(not just yet…)

- These 6 stocks / funds are not magic
  - Chosen for this example because they were bought at a time prior to the recession
  - They were held throughout the recession
  - This is a real-world example, not something figured out after-the-fact
  - Many other stocks / funds will achieve similar results
  - The results were originally evaluated in June 2011, then at several later dates

What are the 6 Stocks / Funds?

- Okay, okay, here's the list
  - EEM: Emerging Markets
  - DVY: Dow Jones Index
  - XLU: Utilities Sector
  - SPY: S&P 500 Index
  - KO: Coca-Cola
  - ED: Consolidated Edison

WOW! Is That Ever Boring

You mean to tell me you're going to pay your bills on that boring list of stocks and funds?

Symbol	Amount Invested	Grows to this amount	Number of years	Annual dividends
EEM (2004)	$10,000	N/A	N/A	$20
DVY (2004)	$10,000	N/A	N/A	$340
XLU (2004)	$10,000	N/A	N/A	$360
SPY(2004)	$10,000	N/A	N/A	$140
KO (2006)	$10,000	N/A	N/A	$150
ED (2006)	$10,000	N/A	N/A	$490
Total	$60,000	N/A	N/A	$1,500

Additional fine print: Data is obtained from www.dividendchannel.com and www.dividata.com , values are rounded to $5, $10, $50 and $100 increments for simplicity. Purchase dates are 2/20/2004 and 1/25/2006.

06/28/2019 UPDATE: WOW! Is That Ever Boring

You mean to tell me you're going to pay your bills on that boring list of stocks and funds?

Symbol	Amount Invested	Grows to this amount	Number of years	Annual dividends
EEM	$10,000	$29,340	15	$610
DVY	$10,000	$29,510	15	$1,000
XLU	$10,000	$42,750	15	$1,330
SPY	$10,000	$34,220	15	$630
KO	$10,000	$37,250	13	$1,170
ED	$10,000	$33,870	13	$1,140
Total	$60,000	$206,940	13 - 15	$5,880

Additional fine print: Data is obtained from www.dividendchannel.com and www.dividata.com, values are rounded to $5, $10, $50 and $100 increments for simplicity. Purchase dates are 2/20/2004 and 1/25/2006.

What Does This Mean?

- Allow the dividends to reinvest for as long as possible. Compounding is your friend
- When “the market” is down, that’s good – you’re buying more shares
- Purchase additional shares periodically (in addition to dividend reinvestment)
- Turn off dividend reinvestment when you transition to financial independence
- Dividends are real money – it’s yours to spend

What Has Happened Since Investing in 2004 and 2006?

[2]Average number of years was used to simplify annual growth calculation Interest rate was determined using relationship shown below.

F=future value
P=present value
i=decimal interest
n=4 periods per year
t=number of years

$F=P(1+i/n)^{nt}$

[3]Dividends were reinvested

Date	Number of Years[2]	Total Value of Investment	Approximate Annual Growth of Investment[3]	Annual Dividends	Approximate Annual Dividend Growth[3]
Initial Purchase 2004-2006	N/A	$60,000	N/A	$1,500	N/A
June 2011	5 - 7	$105,355	9%	$3,425	14%
June 2013	7 - 9	$119,810	9%	$3,685	11%
June 2015	9 - 11	$137,050	8%	$4,335	11%
June 2017	11 - 13	$174,450	9%	$5,000	10%
June 2019	13 - 15	$206,940	9%	$5,880	10%

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References

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  - by Jeremy J. Siegel
- *The Little Book of Value Investing*
  - by Christopher H. Browne
- *The Little Book of Big Dividends*
  - by Charles B. Carlson
- www.BigSafeDividends.com
- www.DividendGrowthInvestor.com
- www.DripInvesting.org