THE ULTIMATE RETIREMENT GUIDE FOR 50+

Audiobook Supplemental Material

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READER'S NOTE

It is my hope and suggestion that you will read every single page of this vital book. However, I also know that many of you will go directly to the chapter that best relates to your current financial situation.

I have made it easy for you to do just that: If you have not yet retired, Chapter 3's "Making the Most of Your Working Years" will answer the majority of your questions. If you are already in your 70s, most likely you will skip Chapter 5's "Power Moves for Your 60s." If you are just about to begin taking your Required Minimum Distributions, beefing up on Chapter 7 ("How and Where to Invest") will make the most sense as you map out your investment strategy. However you choose to read this book, know that each chapter is a complete unit unto itself.

Also, as we were going to press, a bill with far-reaching impacts on retirement plans was signed into law. This bill is known as the SECURE Act. We have done our best in this book to cover the legal changes that will most likely affect you in your retirement years. But you can also visit my website, suzeorman.com/retirement, for the most up-to-date information about the SECURE Act.

Just know that I want you to use this book for the rest of your life. I have filled it with information to help you in every stage of your retirement and written it with clear and concise guidance on every page.

I know it will guide you to your Ultimate Retirement years, so please enjoy reading it as much I enjoyed writing it.

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CHAPTER 2

FAMILY TIES: HOW TO HELP THE ONES YOU LOVE WITHOUT HURTING YOUR RETIREMENT

ONLINE RESOURCES

Have Your Adult Children Get Their Own Health Insurance

Visit the Affordable Care Act's health care exchange (healthcare.gov).

Personal Care Agreements

Work with an elder law attorney to draft a personal care agreement when a family member is going to step in as a full-time caregiver (caregiver.org/personal-care-agreements). Search for elder care lawyers in your area at the website of the National Academy of Elder Law Attorneys (naela.org/findlawyer).

Have a Plan to Work Longer

Use the Social Security benefit calculator to get an estimate of what you may qualify for (ssa.gov/benefits/retirement/estimator.html).

YOUR CHAPTER 2
ULTIMATE RETIREMENT CHECKLIST

- ❑ Calculate all the different ways you provide financial support to adult children, grandchildren, and parents. Note whether the help is for a need or a want.

- ❑ List your personal financial goals that you wish you had more money to devote to.

- ❑ Consider how reducing your support for others will enable you to achieve your ultimate retirement goals: security and not needing your family to support you later on.

- ❑ Say no out of love, not yes out of fear.

- ❑ Make sure you are helping your adult child become financially independent.

- ❑ Consider caregiving options for elderly parents that do not imperil your own retirement security.

CHAPTER 3

MAKING THE MOST OF YOUR WORKING YEARS

ONLINE RESOURCES

Backdoor Roth IRAs

Learn more about backdoor Roth IRAs at my website: suzeorman.com/retirement.

HSA Qualified Medical Expenses

Learn more about HSA qualified medical expenses at my website: suzeorman.com/retirement.

Plot Your 60s Career Downshift

Contact Kerry Hannon, AARP's Jobs Expert, about preparing for your career transition (kerryhannon.com/?p=6844).

Long-Term Care

Learn more about key features to shop for in an LTC insurance policy at my website: suzeorman.com/retirement. Also, the GotLTCi website (gotltci.com) is run by LTC insurance expert Phyllis Shelton.

YOUR CHAPTER 3
ULTIMATE RETIREMENT CHECKLIST

- ❑ Make it your goal to retire debt free.
- ❑ Spend less by focusing on living below your means.
- ❑ Make paying for your retirement a priority over borrowing for a child's college.
- ❑ Consider saving in tax-free retirement accounts: Roth 401(k), Roth IRA, HSA.
- ❑ Start working on your plan for how you will keep working until you are 70.
- ❑ Research long-term care insurance.

CHAPTER 4

WHERE TO LIVE

ONLINE RESOURCES

Make Sure You Can Afford to Stay Put

Learn more about the financial questions you need to ask before you purchase a condo or townhome at my website: suzeorman.com/retirement.

Reverse Mortgage Basics

The Retirement Researcher website is a good resource for learning more about reverse mortgages (retirementresearcher.com/category/reverse-mortgages).

Think through Whether Your Home Will Be Physically Challenging for an Older You (and Your Friends).

The National Association of Home Builders (NAHB) has a checklist of considerations (nahb.org/Education-and-Events/Education/Designations/Certified-Aging-in-Place-Specialist-CAPS/Additional-Resources/Aging-In-Place-Remodeling-Checklist).

If you want to scope out possible projects, be sure to ask contractors if they have experience or training in renovation projects to keep a home safe for aging owners; the NAHB offers a Certified Aging-in-Place

Specialist (CAPS) designation. To find a CAPS professional in your area, visit nahb.org/designations directory and then select "CAPS."

Do the Math on the Upside of Financially Down-Sizing

The myLifesite website (mylifesite.net/resources) provides research on more than 800 Continuing Care Retirement Communities and offers advice on how to vet CCRCs and find the right financial fit. It is run by Brad Breeding, a certified financial planner who is paid by myLifesite customers, not the CCRCs. There is free educational material on the site, and you can get basic information about CCRCs there. For more detailed analysis and access to the site's calculators, the cost is $29 a month. Breeding also wrote a book that walks through the basics of CCRCs: *What's the Deal with Retirement Communities?*

Finding Roommates

You might want to check out Silvernest, a roommate-matching service that specializes in the 50-plus crowd (silvernest.com).

LONG-TERM CAPITAL GAINS TAX RATES		
Capital Gains Rate	Single Filer Income	Married Filing Jointly Income
0%	$0 – $39,999	$0 – $79,999
15%	$40,000 – $441,450	$80,000 – $496,600
20%	$441,451+	$496,601+

YOUR CHAPTER 4 ULTIMATE RETIREMENT CHECKLIST

- ❑ Assess whether your current home is a good financial, physical, and emotional fit for an older you.
- ❑ Make sure you will be able to afford the rising cost of property tax, maintenance, and insurance if you stay in your current home.
- ❑ Inspect your house: Will it be safe and practical for an older you?
- ❑ If you need to renovate for an older you, do it sooner rather than later.
- ❑ Pay off the mortgage before you retire, if you intend to stay put.
- ❑ Consider how moving could bolster your financial security.
- ❑ Explore new living arrangements: living with children or friends, or in a CCRC.
- ❑ If it is practical and you plan to move, take advantage of the current strong housing market.

CHAPTER 5

POWER MOVES FOR YOUR 60'S

ONLINE RESOURCES

Taking the Longevity View

Use the free online Longevity Illustrator (longevity illustrator.org; click the Get Started button in the upper right-hand corner). This tool was developed by the Society of Actuaries, an organization of wonky people that pensions and insurance companies rely on to understand life span probabilities.

Full Retirement Age

This is the age at which you are eligible to collect 100% of your earned benefit. Everyone born in 1960 and later has a FRA of 67. If you were born between 1955 and 1960, your FRA is between 66 and 67. If you were born between 1943 and 1954, your FRA is 66. (You can find your FRA at the Social Security website: ssa.gov/planners/retire/agereduction.html.)

At the Social Security website, you can use the Retirement Estimator tool to see what your benefits may be at certain ages, based on your earnings record on file (ssa.gov/benefits/retirement/estimator.html).

Social Security Benefit Reduction for Certain Public-Sector Retirees with Pensions

Some of you may have a pension from a government job where you and the employer did not pay into Social Security. If during your career, you also worked at a job where you did contribute to Social Security, you may run into a situation where your Social Security benefit is reduced because of the "non-covered" pension benefit. You can learn more about the Windfall Elimination Provision (WEP) at the Social Security website (ssa.gov/pubs/EN-05-10045.pdf), where you can also use a free online WEP calculator to estimate how your anticipated Social Security benefit could be impacted (ssa.gov/planners/retire/anyPiaWepjs04.html).

Don't Worry about Benefit Cuts

There are also online services created by wonky academics that will crunch your numbers and provide you with the best Social Security claiming strategy. You can learn more at Maximize My Social Security ($40: maximizemysocialsecurity.com) and Social Security Solutions ($20 to $50: socialsecuritysolutions.com/index.php).

Pension Payments

Learn more about how the federal government guarantees pension payments (up to certain limits) if your employer files for bankruptcy. Go to suzeorman.com/retirement.

Still Working at 65 with Health Insurance Coverage

If sometime between age 65 and 70 (when you start receiving Social Security benefits), you need to start Medicare, you can you can do it online at the Social Security website (ssa.gov/benefits/medicare).

Medicare Part D

At the Medicare website, you can use the Basic search option for the Medicare Plan Finder to search for Part D plans in your area that offer the lowest out-of-pocket costs for the drugs you take (medicare.gov/plan-compare). Once you identify a plan you like, call or e-mail the plan and confirm the current out-of-pocket costs of the drugs you take; the Medicare Plan Finder is a great tool, but you need to be extra sure how the plan works before you sign on.

Medigap Insurance

There are different types of Medigap policies, offering different levels of coverage. Plans vary by region. The Medicare Plan Finder can help you find Medigap and Medicare Advantage plans in your area and compare their coverages (medicare.gov/find-a-plan/questions/home.aspx).

Head Online to Shop Around for Medicare Plans

Medicare's Medicare Plan Finder is a free website that will show you Medicare plans in your region and allows you to compare plans (medicare.gov/plan-compare/#/?lang=en). There are also state health insurance programs (SHIPs) that can help you sort through your options (shiptacenter.org). The Medicare Interactive tool run by the nonprofit Medicare Rights Center is a good resource for detailed information on plans and rules (medicareinteractive.org).

Commit to an Annual Plan Checkup

Investing some time in researching your best options for the coming year is well worth it. Again, you can use Medicare's Medicare Plan Finder to compare coverage and cost for the coming year (medicare.gov/plan-compare/#/?lang=en). There are also state health insurance programs (SHIPs) that can help you sort through your options (shiptacenter.org).

YOUR CHAPTER 5 ULTIMATE RETIREMENT CHECKLIST

- [ ] Focus your retirement plan on living until *at least* age 95.
- [ ] Decide whether a 401(k) rollover to an IRA account makes sense.
- [ ] Make it your goal to wait until age 70 to start receiving your Social Security retirement benefit.
- [ ] Be very careful if you are tempted to take a lump-sum payout from a pension.
- [ ] Choose the 100% joint and survivor option for a pension if you are married and your spouse is in good health.
- [ ] Enroll in Medicare at 65 (if you don't have coverage at work) and consider purchasing supplemental Medicare coverage.
- [ ] Review your Medicare choices every year.
- [ ] Set a plan for how you will handle a bear market in your 60s.

CHAPTER 6:

HOW TO PAY YOURSELF IN RETIREMENT (AND NOT RUN OUT OF MONEY)

As you near retirement, you must take on a new and demanding job: figuring out how to convert your savings into a reliable stream of income that can support you through a long retirement.

After decades of earning income and saving for retirement, you need to shift gears and get comfortable spending what you have saved. Plus, you'll have to figure out a strategy that will give you the income you need from your first month of retirement all the way through to your 90s.

It's not just your investment accounts you'll have to wrestle with. As I have already mentioned, deciding when to start taking your Social Security benefit will have a huge impact on your retirement income. And for those of you with a pension, there is a series of decisions you need to carefully consider.

I know this can cause a good deal of retirement planning anxiety. But there is no need to be nervous or intimidated. I want you to understand that you have all sorts of life experience in the very skills you need in order to tackle this latest project.

If you are a cook who enjoys digging into an involved recipe, you know that the trick is in combining different ingredients in just the right proportions so that they come together to create something delicious.

If you are a parent, you have juggled, planned, and rolled with the punches every day, for years.

If you are blessed with the rare skill of being able to easily assemble IKEA furniture, you know how to literally put the pieces together to create a useful and pleasing object.

What does this have to do with retirement? Plenty! Your experience in working through projects—no matter what the specific task may be—is exactly what you need now to help you figure out how best to pay yourself a steady and reliable stream of income in retirement. Please listen to me: You don't need to learn a new skill. You need to apply skills you have been using for years in a new way—paying yourself in retirement.

The key to this challenge bears repeating: *steady and reliable income*. *Steady* refers to having at least the income you need to cover all your living expenses each and every month, even when the stock market is down. *Reliable* means your plan will not burn through your money too quickly. As I have already explained, I think at a minimum you should plan on living to age 95; my best advice is to build your retirement income plan as if you will still be alive at 100.

The decisions you make today about how to generate steady and reliable income throughout your retirement are what will allow you to actually enjoy retirement. Taking the time up-front to carefully consider how best to generate the income you need at a pace that will last you decades will be a huge emotional relief. This planning is what will make it possible to not worry about money and to enjoy retirement. And that's what you've been working so hard for, right?

IT'S PERSONAL

Over the years I have been helping people with retirement planning, I've found that there is no one plan that is right for everyone. As strongly as I believe that waiting until you are 70 to claim Social Security is one of the smartest retirement income decisions you can make, I know some of you will insist on starting earlier. Many of you will be comfortable keeping 50% or so of your investment accounts in stocks. For others, having that much in stocks will set off stress alarms and likely cause you to make costly emotional moves in a bear market.

Just about the worst retirement outcome I can imagine is that you push yourself to make choices that you aren't comfortable with, and then you spend your retirement years anxious and worried about money.

That is the opposite of why I wrote this book. The ultimate retirement is all about focusing on the people and the activities that bring you happiness and fulfillment. That is only possible if you free your mind from money worries.

The strategy you land on may incorporate everything I recommend in these pages, or you may make adjustments that work for you. You must make the right decision for you—taking ownership is a big step toward peace of mind. My job is to make sure you have the knowledge to make an informed decision that carefully considers the consequences of the choices you make.

If after considering all the options you feel a bit unsure about how to proceed, this is where a reputable financial advisor can be incredibly helpful. Financial planners specialize in understanding all the moving pieces and how they interact. A good advisor does more than crunch the numbers and tell you what to do. The good ones listen, and they understand what is easy for you to implement and what will make you fearful and anxious. A good plan will address both your money and your mind-set. Good financial planners know that the best plan is the one you will be comfortable sticking with. They will encourage you to consider the best financial strategies, and then adapt as needed to make sure you are comfortable with and committed to your plan.

To be clear, even the most fantastic certified financial planner or advisor isn't a magician. For many of you, there may be important trade-offs to consider. Having a steady, reliable income stream that covers your living costs may involve rethinking staying in your current home or the payoff if you can keep working for a few more years. There are many ways you can get to a steady and reliable income. Having a pro work through all the moving parts and help you craft a plan can be a smart investment. In Chapter 8 I discuss how to find a financial advisor whom you can trust.

THE MOVES TO MAKE TO PAY YOURSELF IN RETIREMENT (AND NOT RUN OUT OF MONEY)

- Know your expenses.
- Calculate your reliable income sources.
- Pay your fixed living expenses from guaranteed income.
- Keep two years of living expenses in cash.
- Hatch an RMD plan.
- Plan to spend no more than 3% of your portfolio in the first year of retirement.

Know your expenses.

This seems so basic, but my experience is that many of you don't know what you really spend each month. You just sort of wing it. When I sit down with people to go over their spending, they typically underestimate their actual spending by $500 or more a month.

You have a pretty good idea of the recurring expenses: what you spend on groceries, the mortgage/rent, utilities, etc. But you forget to add in the many expenses you face less often. All your insurance premiums. Vacations. Gifts. All that less-routine spending adds up!

Now, some good news is that in retirement a few expenses disappear. No more saving for retirement! No more contributing your share of the Social Security and Medicare payroll tax (that's the FICA line on your pay stub). No more commuting.

But you may have new expenses. Especially in the early years of retirement, it is common to want to travel more, for example. I see expenses increase in the case of surviving spouses too. I call it the loneliness factor. You don't like eating alone, so you go out to eat more, and you treat. You go to visit the kids more. You take more trips. I just want you to factor in all these probabilities so that, in fact, you really get your retirement income stream and expenses correct.

> ***Learn more.*** At my website I have a free expense calculator that will help you figure out a realistic picture of what your spending will look like in retirement. Go to suzeorman.com/retirement.

Calculate your reliable income sources.

This is obviously a very important calculation, and one that is not easy to figure out. As we covered in the previous chapter, you have options with Social Security and a pension, if you have a pension, that will determine the income you will receive from both. Another important consideration is that your Social Security benefit will grow with inflation, yet it is rare for pensions to include inflation adjustments.

And those are the easy pieces of your income plan!

Figuring out the income you can generate from your retirement investments accounts—401(k)s and IRAs—is the tricky part. You need to make assumptions about the potential growth rate for your accounts, which will depend on the mix of stocks and bonds you decide works best for you. Taxes are going to take a big bite out of withdrawals from traditional retirement accounts, so that's another issue to work through.

Those retirement accounts will require you to begin making annual Required Minimum Distributions (RMDs) by the following April 1 once you turn 70½ if born on or before 6/30/49, or 72 if born after that date. As I will explain later in this chapter, I think many of you may want to consider not spending all of your annual RMDs. Once you take the RMD and pay the tax—which, as I noted, is why the federal government is forcing you to take the RMD—you may find that reinvesting some of that money will help you keep supporting yourself well into your 90s.

This is where sitting down with a financial planner can be very smart. A good planner will have the software that can run all sorts of careful calculations based on a variety of scenarios that will help you develop a clear picture of what your after-tax income can be in retirement.

> ***Learn more.*** At my website the free Income/Expense calculator will help you estimate what your reliable monthly income will be. That can help you start thinking through your options. Go to suzeorman.com/retirement.

That said, you must be in control of your decisions, and that means taking some time to understand the mechanics of building a reliable income stream.

There are three building blocks to your retirement income:

1. Social Security
2. Pension income (if you are eligible)
3. Income from your investments

We have already walked through why I think the highest earner in a household should consider waiting until age 70 to start receiving Social Security; for those of you who are married and have a pension, I made my case for choosing the 100% joint and survivor benefit.

I want to stress (again) that for those of you who are married, your planning today must take into account how monthly income will change when one of you dies. A surviving spouse can collect one Social Security benefit, not two. Pension payouts can also be lower once a spouse dies; in some cases the surviving spouse may not get any pension payout.

The safest way to plan is to make sure your household's living expenses—needs, not wants—are covered by a steady stream of income not only while both of you are alive but after the death of one of you. Not an easy topic to think about, but it is reality.

We will cover how much income you can safely pull from your investment accounts in detail later in this chapter. Here's a preview: Many of you may be familiar with the strategy that says if your money is split between stocks and bonds, you can withdraw 4% of the balance in the first year of retirement and adjust that for inflation each subsequent year, and your money should last you for at least 30 years. For reasons I will explain later, I think it is smart for anyone retiring soon to reduce their first-year spending to 3% of their portfolio balance.

The free Income/Expense Calculator at my website will help you begin to understand your potential income. If your income is not nearly enough to cover your expenses, don't panic. You have options. You have control. You must stand in your truth, take responsibility, and make the right choices. As we have already covered in earlier chapters, working longer, curbing your spending, and considering a home move to reduce your living expenses will all help you bring your expenses and income into line.

What I will never agree to is a decision to just give up and decide you will spend more of your investment portfolio early in your retirement, or run up big credit card balances you never expect to pay off. That's not exactly a warrior move, is it?

Lately I have been getting a lot of letters from adult children asking what they can do to get their retired parents to understand that they cannot keep spending down the money in their retirement accounts at their current pace. I have to tell you, I find this very sad. The children—who are in their 30s, 40s, and 50s—are worried because they themselves do not have the money to take care of their parents. Their parents have gotten into a difficult, unsustainable situation because they did not figure out, before they retired, their true income versus expenses.

I am asking you to stand in your truth now. If you don't have a reliable income stream that can support you for a long life, then you are probably going to make your life and your kids' lives more difficult. I can't imagine that is what you would ever intend.

Pay your fixed living expenses from guaranteed income.

A retirement income strategy can sometimes feel like being pulled in two opposing directions. You want to know you will have the money you need to take care of yourself. That's an argument for safe investments. But all the longevity statistics we have discussed make a clear case that over a multi-decade retirement, inflation can be a problem. That's an argument for owning some stocks, which have the best chance of generating inflation-beating gains. But that means signing on for living through bear markets, which can be harder to weather emotionally in retirement.

I want you to give serious consideration to a strategy that can give you the stability so many of you crave, and the confidence to own some stocks too.

The stability you want is knowing you can pay your essential living costs no matter what. Period.

Full stop. If the markets are cratering, you want to know you've got income coming that is steady and secure and will allow you to cover your living costs. I hear you.

As I said before, there are a few types of retirement income sources that offer guaranteed income.

1. Social Security
2. A pension
3. An income annuity you purchase

Guaranteed means that these are income sources that have nothing to do with the stock or bond markets. What you receive each month is set. It will not go up or down with market changes. The world can be going crazy around you, and those direct deposit payments will just keep on coming, every month.

If it is help-me-sleep-at-night stability you want, your goal should be to cover all your essential living expenses from these guaranteed income sources.

If Social Security (and a pension, if you have one) don't give you enough to cover your essential bills, you can buy an investment that works like a pension to cover the gap.

An income annuity can be a smart way to round out your guaranteed income needs.

Let's get something straight: There are some god-awful annuities that are sold by insurance agents who care more about the big commissions they earn on those sales than what is best for the client.

I understand if you are extremely skeptical about annuities. I actually am pleased if you're cringing at the thought; it means you are aware of the potential pitfalls.

I hear you loud and clear. I agree with you 100%.

Do you honestly think I would ever steer you into anything that was bad for you? I am recommending one and only one type of annuity: an income annuity.

In the next section I will tell you everything you need to know about income annuities. For now, I just want you to know that if after adding up your Social Security benefit, and perhaps a pension, you are short on having the guaranteed income you need, purchasing an income annuity is an option that can close your guaranteed income gap.

I also need you to consider the other way to close your guaranteed income gap: Reduce your living costs.

If your gap is small, you may be able to close it with a few targeted trims. Maybe a slightly lower travel budget or reining in your spending on your adult kids . . . and their kids. Or reducing your entertainment budget a bit.

If there is a large gap, I want you to circle back to Chapter 4. There is no greater way to save than to reconsider where you will live in retirement. And who you will live with.

There is an additional payoff to the guaranteed income strategy. It should give you the confidence to be able to invest in stocks for the long term. You know your guaranteed income has your back: Those checks will keep coming, steady and reliable. That should make it easier to keep some of your investment portfolio in stocks to help you keep pace with inflation over the years.

Consider an income annuity to generate the guaranteed income you want.

There is one type of annuity that is a good deal for retirees. Income annuities.

Got it? Income annuities.

Not variable annuities. Not fixed indexed annuities.

Income annuities. Period.

An income annuity, which is sometimes referred to as a *fixed income annuity*, is a personal pension you create for yourself. You give money to an insurance company—a lump sum is typical prior to retirement—and the insurance company then agrees to send you a locked-in payment every month once your annuity starts.

The amount you receive is based on a few main factors:

- Your age
- How long the payments will continue; you can choose a lifetime payment, or payments for a specific period, say, 10 or 20 years
- Whether payments will continue for a surviving spouse or partner
- Current interest rates when you purchase the annuity
- Whether you want your benefit to increase with inflation each year

For guaranteed income, I think you will want to focus on a lifetime payout. If you are married, you should consider an annuity that will continue at the same level for the surviving spouse.

Income annuities come in two basic flavors:

- **Immediate income annuities.** You pay your one-time premium to the insurance company, and payments start, well, immediately.
- **Deferred income annuities.** You buy the annuity today, but don't start the payouts until a set period of time, such as 5 years or 10 years. During the period before you start, the premium you paid will earn a fixed rate of return.

If you are looking to create more guaranteed income for your retirement right now, the immediate income annuity will make sense. If you are eager to lock in your guaranteed income plan before you retire, a deferred income annuity is worth considering.

Focus on the peace of mind you are buying.

Survey after survey finds near unanimous hunger for guaranteed income in retirement. No surprise there. But when a solution is offered—income annuities—let's just say interest is lacking.

The deserved bad rap of the "other" types of annuities may be partly to blame.

But the bigger issue is often about the loss of control. You are concerned that if you buy an income annuity, the money you pay the insurer is no longer yours, and you focus on the risk that you may die before the total payments you have received are at least equal to the premium you paid the insurer.

That perspective overlooks the fact that an annuity is not merely an investment. It is also an insurance policy. And insurance is about protecting yourself, not solely making a great investment.

You buy home insurance just in case. You buy auto insurance hoping you will never need to make a claim. You did not buy term life insurance when you were younger with the hope it would be used, right?

Yet when it comes to buying retirement protection—protection against living a long time and your savings not being able to support you—your back bristles.

I understand we are talking big sums of money. For example, in late 2019 a 70-year-old woman who wants $1,000 in guaranteed monthly income for the rest of her life would need to spend nearly $200,000 to purchase an income annuity that would deliver her that monthly peace of mind. For a 70-year-old male married to a 67-year-old woman, locking in $1,000 a month until the surviving spouse dies would cost around $220,000.

But I encourage you to reframe your focus just a bit and think about what problems can be solved with an income annuity.

If you place a high value on having guaranteed income, you should seriously consider adding an income annuity to complement your Social Security. If you place a high value on making sure your spouse will have ample guaranteed income if you die first, why wouldn't you consider adding an income annuity? If only one of you is involved in handling your investments, an income annuity will be a great gift to a surviving spouse who does not have interest or experience in managing investments.

And if you have any inkling or concern that you—or a spouse—may one day suffer cognitive decline, an income annuity becomes one of the kindest decisions you can make for yourself, your partner, and your kids.

Yes, your kids. For those of you with children, if you eventually become cognitively impaired, won't it be your kids who step in and help you keep things running? The simplicity of an income annuity will make it easier on all of you.

Look, I know no one wants to think about this. But to not consider the possibility of dementia or Alzheimer's is irresponsible. We can all hope breakthrough treatments are going to emerge in our lifetime. We can all take better care of ourselves to maybe tilt the odds our way or at least forestall our mental decline. We can pray and hope we retain our mental faculties. And yet none of that offers us any guarantee we will be spared.

We don't control the cognitive gods. Yet what is absolutely in our control is thinking through ways to do some advance financial planning that can provide insurance for a later-life "what if": What if I can no longer carefully handle my financial accounts?

An income annuity requires no management once you buy it. There are no portfolios to rebalance. There are no bear markets to worry about. Once the money is handed over to an insurance company, that is money you won't be tempted to use to chase after a hot stock or a deceptively high yield. It is also money that will be out of the reach of an unscrupulous cheat who preys on seniors, especially seniors who may not be as mentally sharp as they once were. Tucking some money away with an insurer provides protection from elder financial abuse.

Income annuities take all of those issues off the table. No matter what happens to you, the monthly payout just keeps getting deposited in your checking account. You don't have to keep up with anything, and no one can interfere. How is that not valuable insurance to consider?

The older you are when you start payments, the more money you will receive. You can wait until you are ready to retire—say, age 70—and buy an immediate annuity. Or, with a deferred annuity, you pay the premium today (or over a few years) with the agreement that payments won't start for another 5 or 10 years, or more.

And here is something to chew on: Academic research and surveys of retirees report that people who have guaranteed income are happier and more secure in retirement. Security is a powerful asset, both financially and emotionally.

That said, I want you to know that if you absolutely, positively won't consider an income annuity because of the loss of control, yet you very much want more guaranteed income, the insurance industry has rolled out income annuities with bells and whistles just for you.

There are now income annuities that basically provide a death benefit of sorts.

An income annuity with a cash benefit will pay you a lifetime benefit, but if you die before your total payouts equal the up-front premium you paid, your beneficiary will continue to get payments until total payments equal what you paid for the income annuity.

Another option is an income annuity with a fixed benefit. You (or a beneficiary) are guaranteed to receive payments for the "fixed" period you choose; it can be 5 years, 10 years, or 20 years.

You can get quotes for income annuities with and without these features. Your monthly payout will be less if you choose one of these options that ensures you "get back" something. A plain-vanilla income annuity will be the best financial choice, but if you can't will yourself to consider that, then you may find it a worthwhile trade-off to buy an annuity that will keep paying even if you die sooner rather than later.

AN ANNUITY TO HELP CALM LONGEVITY FEARS

If your retirement were to last just 15 or so years, you probably would be pretty calm. You likely have plenty of income sources you can draw on for such a relatively short time.

But as I explained earlier in the book, there are some pretty strong odds that you may live into your 90s. Being sure your money will be able to keep supporting you for 25 or 30 years is a tougher proposition.

If your worry is that your money will run out if you have the good fortune of a very long life, a longevity annuity may be worth considering. Longevity annuities are basically deferred income annuities, but their start date is way off in the future. You pay your premium today, but the payments don't start until you are 80 or 85.

Because of the long lag time—during which you could die—the premium on a longevity annuity is much lower than on an annuity that starts payments earlier. For example, in late 2019, a 70-year-old woman who spends $100,000 for a longevity annuity would receive a monthly payout starting at age 85 of around $1,500 a month. Before she turns 91, she will have received her initial investment back, and the payments will continue for the rest of her life.

If you are interested in a longevity annuity, you may want to consider purchasing one with money in a 401(k) or IRA. These are called *Qualified Longevity Annuity Contracts (QLACs)*, and they offer a temporary reprieve from paying RMDs.

The money you use from a traditional 401(k) or IRA to purchase a QLAC is no longer counted as part of the balance on either type of account, which will reduce your RMD. For example, if you have $500,000 in a traditional IRA, your RMD will be calculated as a percentage of that $500,000. But if you used $100,000 to purchase a QLAC, which will begin payments years from now, your balance for calculating your RMD is now $400,000. (Once payouts begin at 80 or 85, you will owe income tax on the payments.)

You are allowed to use 25% of a retirement account balance, up to a maximum of $135,000 (in 2020), to purchase a QLAC.

You can buy income annuities and longevity annuities online through websites that will collect your information and then give you instant quotes from a handful of insurers. Immediate Annuities (immediateannuities.com) and Income Solutions (incomesolutions.com) sell annuities to individuals. The Go2Income site (go2income.com) provides instant free estimates of various types of income annuities based on pricing at more than a dozen financially strong insurances companies; it also offers an annuity shopping service for customized quotes. Your discount brokerage might offer an annuity service, and some 401(k)s also offer annuities to participants. If you work with a fee-only financial planner, they will be able to help you consider your options and direct you to the best solution for your needs.

You can use money in an IRA or 401(k) to purchase an immediate annuity, or regular savings from a taxable account.

If you use money currently invested in a traditional 401(k) or IRA, the process essentially works like an IRA rollover: You move the money over to the insurer, who will put the money in a "qualified" account that is essentially an IRA. Then you will pay income tax on the distributions just as you would if money had remained in a traditional 401(k) or IRA.

If you use after-tax savings to purchase an immediate annuity, you will not owe tax on the portion of the payment that is a return of your investment, but any earnings on your annuity that are part of the payment will be taxed.

When you are shopping for an immediate annuity, you should receive (or request) estimates of how your payments will be taxed.

A crucial part of your buying process should be to confirm that the insurance company is in strong financial shape. After all, you are handing this company a lot of money that you expect to collect on for decades, or in the case of a longevity annuity, that you won't even start collecting on for a few decades. When you get quotes, the financial strength rating of the company should be prominently displayed. If not, just do a web search of the name of the insurer and the term "financial strength ratings." There are a few major ratings companies; the ones most widely used are Standard and Poor's, AM Best, and Moody's.

Each service has its own scale that starts with AAA or A and declines to CCC grades or lower. I would not invest with any company that has any form of a grade with even the letter B. Please stick with a company that has a very high rating from at least two of these rating companies:

Standard & Poor's: AAA, AA, or A
AM Best: A++, A+, A, A-
Moody's: Aaa, Aa1, Aa2, Aa3

Keep at least two years of expenses in cash.

Those of you who've been following my advice for years know that I have long said every household needs an emergency fund that can cover up to eight months of living expenses.

I also want you to have a separate bear-market emergency fund in retirement that has at least two years of living expenses in it. If you expect that you will not cover all your living expenses from guaranteed income, then I would recommend keeping three years of expenses in super-safe accounts that you can tap whenever you need to and know the money will be there for you.

Let me be clear: This is in addition to your eight-month emergency fund.

Why such a big bear-market emergency fund? To give you the confidence that you can handle whatever the markets—or life—throws at you. This is money you can live on no matter what happens. And we all know things happen. When all your money is tied up and then something happens and you need to tap that money, that is when you will lose money. For instance, when a bear market hits, rather than pull money from your stock investments when they are lower in value, you can use this money to cover expenses. That in turn can make it emotionally easier to not sell your stocks when they are down.

This fund is also where you get the money to pay for out-of-pocket medical expenses if you suffer an injury or serious illness. It can also make it easier to hire help while you are recuperating.

You should create this bucket of cash from your bond portfolio. For instance, let's say you have $500,000 in investments that is split $250,000 in stocks and $250,000 in bonds. And let's assume your annual living costs are $35,000. I would move at least $70,000 (two years of living costs) of your bond portfolio into savings accounts, certificates of deposit (CDs), or short-term bond funds with a duration of no more than two or three years. In this example you would keep $70,000 super safe and invest the remaining $180,000 in intermediate-term Treasury notes, or in funds or ETFs that own short- or intermediate-term Treasury issues.

CONSIDER SAVING ONLINE

I know many of you do your banking at a bank or credit union that has local branches where you can use an ATM or speak with a teller. That is a fine place to keep your checking account and get easy access to cash at the ATM when you need it. But banks with physical branches—called *brick and mortar*—tend to not pay the best interest rates on savings accounts and CDs.

Keep your checking account right where it is, but I want you to consider moving your savings to an online bank or credit union that pays higher yields. A big reason they can pay higher yields is that they don't have physical branches with rent and overhead. In late 2019, when many traditional banks were paying 0.25% or less on savings accounts, some high-yield accounts had yields of near 2% or so. The interest on CDs also tends to be much higher at online banks and credit unions.

You can link your online account with your checking account, and transfer money with a few mouse clicks.

Savings accounts and CDs you purchase through online bank and credit union accounts are completely safe. They are no different from the same types of accounts at a traditional bank. And they offer the same federal insurance coverage.

It's easy to confirm that an online account will be federally insured. For a bank, scroll to the bottom of the bank's homepage and you will see an "FDIC insured" logo. For a credit union, keep an eye out for a small logo with the acronym NCUA. The National Credit Union Administration is the federal program that provides insurance to credit unions; it works the same as FDIC insurance for banks.

At a bank or credit union, you will have a minimum $250,000 of insurance protection at a single bank for all your insured accounts: checking, savings, and CDs. So you and your spouse could each have $250,000 of coverage in separate accounts. If you also have a joint account, that is eligible for another $250,000 of insurance coverage per person.

Need more than that? Depending on the type of account, you may be eligible for even more coverage at your current bank. Or you can open accounts at another bank and repeat all the coverage limits. But I want to be extra clear here: It must be an entirely different bank, not merely a different branch of the place where you currently bank.

BE CAREFUL: NOT EVERY TYPE OF BANK AND CREDIT UNION ACCOUNT IS FEDERALLY INSURED

Federal insurance protects only certain types of accounts you buy and hold at a bank or credit union.

Accounts that are covered by federal insurance:

- Checking accounts
- Savings accounts
- CDs
- Money market deposit accounts

In the rare event that your bank or credit union runs into financial difficulty, federal insurance will step in and repay you every penny in those accounts, up to the limits discussed above.

But banks also offer (sell) many types of investments that are not covered by this insurance.

Investments you can buy at a bank that will not be backed by federal insurance:

- Stocks and bonds
- Mutual funds and ETFs
- Annuities
- Life insurance

Honestly, if you want to make any of those investments, a bank or credit union is likely a lousy place to be shopping. Banks and credit unions typically offer investments that charge higher fees than a discount brokerage, or a service that specializes in life insurance or annuities. And now that you know those accounts don't qualify for any federal insurance at a bank or credit union, why bother buying there? Save money and do your investing and insurance buying elsewhere.

A web search of "high yield online savings" will direct you to sites that track the best offers. Or at the Deposit Accounts website (depositaccounts.com), you can use its free search tool to look for offers. Be sure to read the fine print on the required minimum balance and whether there are any limits on how many withdrawals you can make in a month. That shouldn't be an issue, as you will still use your regular checking account for paying bills; chances are you likely won't need to make withdrawals from an online savings account more than a few times a year, if that much.

BUILD A CD LADDER

You may also want to consider keeping all or a portion of your safe savings in a certificate of deposit (CD). Online banks and credit unions also offer CDs.

CDs are a savings vehicle that lasts for a set period of time. You can purchase one-, two-, three-, four-, and five-year CDs. The longer the "term," the more interest you will be paid. The interest rate will not change over the duration of the CD. Your interest rate is locked in on the day you purchase. If you think rates are going to go down, a CD can be a better place for your safe money than a savings account, where the rate can fluctuate.

CDs are just as safe as regular savings accounts. When the term ends—often referred to as when the CD *matures*—the money you invested in the CD, your principal, will be returned to you.

There's one catch with CDs. If for some reason you decide you need the money before your CD matures, you can take it out but you will pay an early withdrawal penalty. The penalty varies according to the term.

A one-year CD will typically charge an early withdrawal penalty of three months or so of interest. For a five-year CD, the penalty might be six to eight months interest. Every CD issuer has its own policy. Be sure you know the rules before you invest.

A portfolio of CDs with different maturities can be a smart strategy to increase your overall yield, while reducing the chances you will need to make an early withdrawal. For instance you could invest equal amounts in five different CDs: one-year, two-year, three-year, four-year, and five-year. That way you have some money maturing every year. When the one-year CD matures, invest it in a new five-year. Your two-year CD now has just one more year to go, so it becomes your one-year CD. When it matures, invest that in a five-year CD too. Keep doing this and eventually you will have a portfolio of five-year CDs, with one maturing every year. That will pay you more interest than if you kept all of your money in a one-year CD that you had to reinvest annually.

I think the CD ladder can be a terrific option for some of your cash, but if you are aiming for a two-year cash reserve, I would still keep at least six months of that in a simple savings account where you will not owe any withdrawal penalties.

CONSIDER MONEY MARKET MUTUAL FUNDS

A money market mutual fund at the discount brokerage where you have your IRAs and other investment accounts can be a good option for savings as well. Just keep in mind that money market mutual funds are not federally insured. If you save in a money market mutual fund that owns U.S. Treasuries, I don't think you need to worry about insurance. The fund is full of rock-solid securities. That said, if you feel better knowing your savings are federally insured, stick with a high-yield online bank savings or CD account.

HATCH AN RMD PLAN

If you have savings in a traditional 401(k) or a traditional IRA, the federal government is going to force you to start taking money out each year starting by the following April 1 once you turn 70½ (if born on or before 6/30/49) or 72 (if you were born after), if you are retired. Still working? You are required to start withdrawals from your IRA and any old 401(k)s from previous jobs, but you can delay RMDs from your current 401(k) until you stop working.

For those of you who have saved some money in Roth 401(k)s (covered in Chapter 3), there is an odd quirk you need to know about. You will be required to take distributions if the money is still in the Roth 401(k) the following April 1 once you turn 70½ (if born on or before 6/30/49) or 72 (if born after). Don't worry: You won't owe tax on the withdrawal. But every year you will need to take the RMD. If you don't need the annual distribution, it is smarter to move the money from a Roth 401(k) to a Roth IRA so you can keep the money growing tax free. Rollovers are explained in Chapter 3, and once the money is in the Roth IRA, you are not obligated to make any withdrawals.

The reason you are forced to take money out of traditional accounts, as I noted earlier, is that the federal government is eager for you to pay income tax on the money. Remember: That's the deal you signed up for when you chose to save in a traditional 401(k) or IRA; you got a tax break on the money you contributed—it was deducted from your taxable income for that year—with the understanding that in retirement you would owe income tax on withdrawals.

Even if you don't have the financial need to touch these accounts, you still must start making annual withdrawals. The federal government sets the floor on what you must take out each year—by now you know this is called your Required Minimum Distribution (RMD). It is a formula that requires you to withdraw a set percentage of your traditional accounts each year. The percentage is based on the balance of your account on December 31 of the prior year.

The calculation adjusts for your age. Someone who is 70 will have an RMD equal to 3.65% of the value of a traditional account. By age 75 the RMD is 4.37% of the value. At age 85 you are required to withdraw at least 6.76% of the value of a traditional retirement account. If your spouse is at least 10 years younger than you and is sole beneficiary of an account, your RMD will be based on a different calculation that will slightly reduce your RMDs.

> ***Learn more.*** At my website, I have worksheets that will show you what your RMD percentage will be each year. Go to suzeorman.com/retirement.

Because the RMD is based on a percentage of your year-end account value, the dollar value of your RMD will fluctuate along with the performance of your portfolios and the changing required percentage you must withdraw. For example, you are 70½ and because you were born on or before 6/30/49, your required

RMD withdrawal is 3.65%. You have $1 million in your 401(k), so your RMD will be $36,500. Then let's say a bear market hits and your portfolio value falls to $800,000 by the time you are 72. Your RMD percentage will be higher—3.91%—but because your portfolio is smaller, the value of your RMD will be $31,280. The reverse is true in roaring bull markets, of course. If your $1 million portfolio grows to $1,200,000 at 72, your RMD will be nearly $47,000.

Don't worry: You don't need to do the RMD calucation yourself. The company where you have your IRAs and 401(k)s invested will calculate your RMD for you. You can set up an automated system to make the RMD by the year-end deadline (though you can take it out earlier in the year too). I recommend making your RMDs automatic. There is a massive penalty for missing an annual RMD: 50% of what you were supposed to withdraw. Ouch!

Technically, you don't have to take your first RMD until April 1 of the year *after* you turn 70½ (if born on or before 6/30/49) or 72 (if you were born after). My advice is that if you are retired, start the RMDs in the year you turn 70½ or 72. Don't delay to the following April. If you delay you will still be required to take another RMD by year end for your current-year RMD. Having to make two RMDs in one calendar year is going to push your taxable income higher, which might bump you into a higher tax bracket, impact the taxation of your Social Security benefits, and even mess with the premium you will owe on your Medicare Part B coverage.

RMD'S WHEN YOU HAVE MULTIPLE ACCOUNTS

For those of you thinking it makes sense to add up all your RMDs from different accounts and then just take the money from one account, I couldn't agree with you more. But aggregating and making one withdrawal is not allowed in some instances. Here's what you need to know:

- **IRA RMDs:** You can calculate all the RMDs from your IRAs and then, if you want, take that total sum from just one account. You don't have to make withdrawals from each IRA.

- **403(b) RMDs:** Same treatment as IRAs. If you have multiple 403(b)s, you can take your total RMD for all the accounts out of a single account.

- **401(k) RMDs:** No dice on taking the total RMD from just one account. You must take an RMD from each 401(k) account, every year.

Married? Be very careful. You aren't allowed to add up your household's total RMDs and then pull the money from one (or more) accounts. Retirement accounts are in individual names only. Each of you must take all the RMDs required from your individual accounts, following the guidelines mentioned above.

If all of that just gave you a headache, remember that you can consolidate accounts under one roof with IRA and 401(k) rollovers, which can make it far easier to manage RMDs. (See Chapter 3.)

You Don't Have to Spend All of the RMD (and Probably Shouldn't)

Just because you must make withdrawals from your traditional retirement accounts, that does not mean you can or should spend all of it. After you pay the IRS their tax, what you do with your distribution is entirely up to you. For many of you, it will be wise to consider reinvesting some of your RMDs.

In the next section, I will explain why starting your retirement spending at no more than 3% of your portfolio value is a good target to aim for. You can then plan to increase your withdrawal by the rate of inflation each year.

That means that if all of your retirement money is in traditional accounts, your RMDs will be more than the 3% rule. In that case you can reinvest a portion to keep your actual spending to around 3%.

You can't reinvest an RMD in your IRA or 401(k) when you are retired. You would put the money in a "regular" taxable account. Regular accounts are taxed differently from the money in your traditional 401(k) and IRAs.

In a regular account, interest income will be taxed at your ordinary income tax rate. If you invest in bond index funds or bond ETFs, you will indeed have annual interest income. Even if you reinvest that income in the same fund/ETF, you will still get a tax bill each year. Keep in mind that income from Treasury bonds is typically exempt from state income tax. And municipal bond income is typically tax free on your federal return and may be tax free on your state return as well.

If you own index mutual funds or ETFs, you will typically not owe any other tax until you sell shares, and then only if you sell for a profit. I want to be clear: This is not true of actively managed funds or ETFs you own in a taxable account. Actively managed funds can produce tax bills every year that you are a shareholder if a manager makes portfolio changes that cause the fund to "realize" gains on a sold investment. By law, funds must pass along the majority of those gains. In the next chapter, I will explain why low-cost index mutual funds and ETFs are the best way to build a diversified portfolio. The fact that both types of investments don't typically generate capital gains tax while you own shares is an extra reason to stick with them when you are investing in a regular taxable account.

When you do sell shares in an index mutual fund or ETF, the tax on any profit will likely be a lot lower than you expect. When you sell shares at a profit, that is called a *capital gain*. And for regular accounts, capital gains have their own tax rules.

When you sell an investment you have owned for at least one year, the profit will be taxed as a long-term capital gain.

For most of you, your long-term capital gains rate will be either 0% or 15%.

LONG-TERM CAPITAL GAINS TAX RATES		
	0% long-term capital gains	15% capital gains tax rate
Single	Income $0 – $39,999	$40,000 – $441,450
Married, filing a joint tax return	Income $0 – $79,999	$80,000 – $496,600

For 2020, incomes above $441,450/$496,600 pay a higher capital gains tax rate.

Shares that you own for less than one year and sell for profit are considered short-term gains. Short-term gains are taxed at your income tax rate.

One added benefit of taxable accounts is that you can claim a tax break if you sell shares at a loss. That's not possible with 401(k)s and IRAs.

There are short-term losses and long-term losses. How you apply them depends on a few factors.

If you have a short-term loss (you sell an investment you have owned for less than one year, for less than it cost you to buy the shares) and you also have a short-term gain, you must first use the loss to reduce the size of your taxable gain. The same goes with long-term losses: They must first be applied to reducing any long-term capital gain you had from selling shares in the same calendar year. If you only have a short-term loss and a long-term gain (or vice versa), you are allowed to apply either loss to either gain.

If you don't have gains to offset, or they don't offset all your losses, you can also deduct up to $3,000 of your remaining losses from your income on your current tax return. If the loss is more than $3,000, you can carry over your loss balance into the next tax year and go through the same exercise. There is no limit on how many years you can "carry forward" a loss.

I want to make one thing clear: You can claim losses on taxable investment accounts, but this break is not available if you sell your primary residence at a loss. While the tax law gives you a big tax break if you sell your home at a gain, it provides no relief when you sell a home at a loss.

Given that bond funds and bond ETFs produce a lot of interest income (taxed at your income tax rate, not capital gains), you may want to consider owning those investments inside your 401(k)s and IRAs where you won't owe tax until you make a withdrawal. And focus on using regular taxable accounts for your stock investing, where your taxes will come mostly from gains when you sell, not income.

Some good news for my fellow dividend-stock investors: The best sturdy dividend stocks—and the index funds and ETFs that invest in them—make distributions that typically qualify for the long-term capital gains treatment. This "qualified dividend income" will be taxed at whatever your long-term capital gains rate is. As I mentioned earlier, that's typically going to be 0% or 15% for most of you.

If you choose to work with an advisor, a good one will be laser focused on helping you manage your investment tax bill. If you want (or need) to sell some shares at a gain, an advisor may be able to help you identify shares of another investment that may currently be worth less than what you paid; by selling shares in that investment, you can reduce (and maybe eliminate) the tax due on your capital gain.

Plan to spend no more than 3% of your portfolio in the first year of retirement.

As I said before, you may be familiar with a popular withdrawal strategy that suggests you start by withdrawing 4% of your money from your accounts and then adjust that amount each year by the rate of inflation. For instance, if you have $1 million, you would withdraw no more than $40,000 in your first year. The next year, if inflation was 3%, you would withdraw $41,200 ($40,000 plus 3%). If inflation was 3% the third year, you would withdraw $42,436, etc.

This advice was based on research that found that if you kept 50% of your money in U.S. stocks and 50% in Treasury bonds and you started withdrawals at age 65, there was a near 100% probability that your money would last for at least 30 years, based on historical returns.

I still think this can be a good approach to consider, but given that I always want you to be more than okay, my recommendation for those of you retiring in the next few years is to consider spending just 3% of your portfolio each year. As I have already explained, your RMD will be higher than 3%. What I am suggesting is that after taking your RMD and paying the tax, you reinvest some of your money so that your net withdrawal rate works out to just 3% in the first year of retirement. (You can adjust that for inflation each year.)

My concern is the strong possibility that the returns we may earn on our stocks and bonds will be lower for the next decade or so.

As I write this in late 2019, the stock market is 10 years into a bull market. Stocks have climbed so much in value during this bull market that we should not be surprised if stock returns for the next 10 years will not be as strong. High-quality safe bonds are also likely to produce lower returns in the coming decade given that yields are so low right now.

In a scenario where portfolio returns are lower than the historic norms, a safer strategy would be to spend less of your RMDs in the early years of retirement.

That said, if all your living costs will be covered from guaranteed income—Social Security, pensions, and maybe income annuities—a 4% net withdrawal rate is less risky. Even if returns are lower, there is still a high probability you will be just fine.

Moreover, the estimates of how long your money will last are based on starting withdrawals at age 65. If you wait until age 70 to start, then 3.5% or 4% can make plenty of sense, as your retirement years have been shortened from 30 to 35 years down to 25 to 30 years.

The most important factor is whether you retire in a bull market or a bear market. If you have the misfortune of retiring just as a bear market hits, or you encounter one in the first 5 or so years of retirement, withdrawing as little as possible is going to be a huge help 10, 20, 25 years down the line. A bear market is a punch to your portfolio. Taking money out is another blow that leaves the account even more depleted. By scaling back withdrawals as much as possible, you can give your money more time to recover. (Congress waived RMDs in 2009 for just this reason: After the big bear-market losses, it didn't want to force retirees to pull money out of their accounts.)

In the next section, I explain a strategy that can help your portfolio survive bear markets.

STAY FLEXIBLE

A key component of your retirement income plan is to stay flexible as your situation shifts and modify your plan when needed.

This is no different from how you have navigated your entire life. By the time you are 50, 60, or 70, you have spent decades making plans and then adjusting those plans as life dictates. That's such a valuable muscle you have exercised often. I want you to keep using it in retirement.

For example, if you decide to start with the 3% withdrawal strategy with an annual inflation adjustment, that is not some written-in-stone strategy. If you suspend the inflation adjustment in years when your portfolios are down, you increase the life span of your portfolio. In very bad down markets, reducing your withdrawals by 10% or so from the prior year is also going to help you navigate through a rough stretch. (For example, if you were withdrawing 3.3%, you would reduce your withdrawal to 3%.)

Maybe a vacation or two gets delayed or you trim your monthly entertainment spending. Reducing or suspending cash gifts to your kids and grandkids isn't selfish; it's how you protect your kids from one day having to step in and provide financial support. These likely aren't forever cuts, but are important ways to counteract the risks that rise when portfolio values are down. When they have recovered, you can raise your spending rate.

I also want to make sure you remain flexible if you have the good fortune of retiring into a bull market, which keeps your portfolio growing even as you are making withdrawals.

If that is the wonderful predicament you land in, I hope you will allow yourself to spend more later on, if that is something that would make you happy. Maybe it is spending on you; maybe it is spending on loved ones. Maybe it is sharing more with the causes that are meaningful to you.

I am not giving you license to spend more indiscriminately. I am suggesting that if you are the beneficiary of good fortune in the markets, and if want to take advantage of that, you should give yourself permission to spend on things that matter to you. Do a thorough review of your situation—or work with an advisor who can run the numbers—and you may find you have the flexibility to increase your spending 10 or 15 or 20 years into retirement and still retain ample savings that will see you through safely and dependably.

YOUR CHAPTER 6 ULTIMATE RETIREMENT CHECKLIST

- ❑ Estimate your monthly income in retirement.
- ❑ Aim to cover essential living costs from guaranteed income sources (Social Security, pensions, income annuities).
- ❑ Be open to income annuities (the "good" annuities) as a way to create more guaranteed income.
- ❑ Keep at least two years of living expenses in cash if you won't cover everything from guaranteed income.
- ❑ Be ready to take your annual RMDs once you turn 70½ if born on or before 6/30/49, or 72 if you were born after that date.
- ❑ Consider reinvesting some of your RMDs early in retirement.

CHAPTER 7

HOW AND WHERE TO INVEST

ONLINE RESOURCES

You Can Buy Treasuries Directly from the U.S. Government

All U.S. Treasury bonds have a AAA credit rating. That means you don't really need to worry about building a diversified portfolio of Treasuries. I still think mutual funds and ETFs are a great way to own Treasuries, but I also want you to know that you can buy individual Treasury bonds at the government's TreasuryDirect.gov website (treasurydirect.gov).

Rental Real Estate

Considering buying real estate to rent out for retirement income? That can be a fine strategy, but assess the risks and expenses first. My website has info and advice to help you make the right decision: suzeorman.com/retirement.

WHAT $1,000 TODAY WILL COST IN . . .	
5 years:	$1,160
10 years:	$1,340
25 years:	$2,090
30 years:	$2,430

Rounded to the nearest dollar.

YOUR CHAPTER 7 ULTIMATE RETIREMENT CHECKLIST

- ❑ Plan for your living costs to rise—a lot—over a 20- to 30-year retirement.
- ❑ Don't bail on stocks: They offer the best chance of inflation-beating gains.
- ❑ Aim for a mix of stocks and bonds that you can stick with through good and bad markets.
- ❑ Create a diversified portfolio with low-cost index mutual funds and exchange-traded funds.
- ❑ Use a total stock market fund or ETF as the core of your stock investments.
- ❑ Use dividend stocks in moderation.
- ❑ Focus on high-quality bonds: Treasuries, TIPS, and (in moderation) municipal bonds.

CHAPTER 8

FINDING THE RIGHT FINANCIAL ADVISOR

ONLINE RESOURCES

When Looking for a Financial Planner or Financial Advisor, Create a Short List of Candidates

- **Let's Make a Plan** has a web search tool of certified financial planners (CFPs). I was once a CFP, so I know how much hard work—including a rigorous exam—it takes to achieve that designation, and the high ethical standards CFPs abide by. Letsmakeaplan.org: letsmakeaplan.org/choose-a-cfp-professional/find-a-cfp-professional.
- **The National Association of Personal Financial Advisors (NAPFA).** This organization is limited to fee-only advisors. NAPFA members never earn any money from the investments you buy or sell. Rather than commissions, which can create a serious potential conflict of interest, a NAPFA member is paid a one-time flat fee,

an hourly fee, or an ongoing fee that is tied to the money the advisor manages for you. Many NAPFA members will also be CFPs. NAPFA Find an Advisor: napfa.org/find-an-advisor.

- **Garrett Planning Network** This is a national organization of CFPs (or people working on their CFP certification) who vow to always work in your best interests. GPN members offer financial planning on an hourly, fee-only basis. If you're looking for help with specific questions or crunching the numbers prior to retirement, a GPN member can be a good resource. You can also maintain an ongoing relationship, and some GPN members provide investment advice. GarrettPlanningNetwork.com.

WiserAdvisor (WiserAdvisor.com) and **Wealthramp** (wealthramp.com) are referral services that connect you to potential advisors they think will be a good fit for your needs. The service is free to you. Advisors pay a fee for leads on potential new clients.

Check Credentials

All those acronyms after an advisor's name are not to be taken at face value. Some of them sound impressive but are merely marketing gimmicks, not a sign that someone has invested time in becoming knowledgeable about a topic or has passed any sort of screening or exam.

The Paladin Research & Registry website has a free Check a Credential tool where you can plug in an acronym and learn about the quality of that credential; each credential is rated on a scale of one to five stars (paladinregistry.com/research/credentials-financial-certifications).

FINRA, the financial service industry's self-regulatory arm, has a free database of professional designations that will give you a sense of the work involved in achieving that designation and what organization is behind it (finra.org/investors/professional-designations).

Check for Disciplinary and Criminal Issues

FINRA also has a free service, BrokerCheck, that will give you background information on financial advisors who work for what are known as *broker-dealers* (brokercheck.finra.org). Not all advisors are affiliated with a broker-dealer. That's more than okay! In that case, their disciplinary record is tracked by the Securities and Exchange Commission. But BrokerCheck makes it easy to check out everyone: If you type in someone's name on the BrokerCheck site and the information you are looking for is at the SEC site, you will be given a direct link to the SEC site.

If you are researching someone who says they are a CFP, you can verify that they are still an active member at the CFP website, Letsmakeaplan.org (letsmakeaplan.org/choose-a-cfp-professional/find-a-cfp-professional). This CFP site also lists disciplinary action, but in the summer of 2019, an investigation by *The Wall Street Journal* found the CFP's system was not thorough, and omitted thousands of disciplinary and criminal infractions that were listed for the same person on the BrokerCheck website. The Association of CFPs is working on improving this feature, but the safe move is to rely on BrokerCheck for vetting bad behavior.

Consider Bringing Someone into Your Financial Life Today

If there is no one in your circle you feel comfortable asking, please consider creating a professional support team. There are services that will handle your bill payments; you can search for professionals at the American Association of Daily Money Managers (secure.aadmm.com). Vetting potential bill paying services is crucial, as there is no state or federal oversight. Asking elder law attorneys or financial advisors for references is smart. And then be sure to ask any potential firm for three clients you can speak with. If you work with a financial advisor or accountant, they may have leads on reputable services.

YOUR CHAPTER 8 ULTIMATE RETIREMENT CHECKLIST

- ❏ Seek out professional help if it will give you the confidence and calm that will allow you to enjoy your retirement.
- ❏ Never work with an advisor who earns commissions based on what you buy and sell.
- ❏ Seek out fee-only financial advisors, and confirm they operate as a *fiduciary who always puts your interests first.*
- ❏ Check the credentials of all candidates and run their names through the free online BrokerCheck system to make sure they have not had any disciplinary run-ins.
- ❏ When seeking help managing your investment accounts, confirm there will be a third-party “custodian” for your money, and that low-cost index mutual funds and ETFs will be the centerpiece of your portfolio.
- ❏ Never hire someone you do not have 100% confidence in. Trust your gut and keep looking.
- ❏ Remember: You are the best financial advisor you will ever have. When you aren’t sure about something, slow down and learn more. It is better to do nothing than to do something you don’t understand.

CHAPTER 9

PROTECTING YOURSELF AND THOSE YOU LOVE

ONLINE RESOURCES

A Special Offer for Readers of *The Ultimate Retirement Guide*

Create Your Must-Have Documents for $69.

If you want to avoid the high fees of working with an estate planning attorney, you can create the documents you need—specific to your state's laws—by using my online Must-Have Documents Kit. I developed this program with my own personal trust attorney.

Once you create your documents you will also receive free automatic updates. Go to suzeorman.com/retirement.

YOUR CHAPTER 9 ULTIMATE RETIREMENT CHECKLIST

- ❑ Create a living revocable trust to manage your finances today and make it easy (and private) for your loved ones when you die.

- ❑ Use a will as a complement to a trust; it is where you spell out who will inherit your nonfinancial possessions.

- ❑ Spell out your wishes about medical care as you age in an advance directive and appoint someone you trust as your health care proxy.

- ❑ Have a power of attorney for finances drawn up; it is often required if you want someone to help you manage your bills and investments.

- ❑ Consider sharing your financial life with your appointed "successor trustee" sooner rather than later; it can make everyone's life easier.

- ❑ Spell out your final wishes.