

# Rejuvenate Your Retirement®



SESSION 1

2020 EDITION

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SECTION

2

HOW LONG WILL MY MONEY LAST?

SAMPLE ONLY

# INTRODUCTION

What are your retirement income goals, and what will it take to meet them? This section will include information on how to:

- ♦ Estimate your annual retirement withdrawal expenses
- ♦ Estimate the income you will receive from sources such as Social Security, your pension, investments and other sources
- ♦ Determine your estimated annual withdrawals
- ♦ Understand the effects of taxes and inflation
- ♦ Understand the risks of market timing and the effects of investing into a declining market



SAMPLE ONLY



## RETIREMENT INCOME WITHDRAWALS

Estimating the annual withdrawal percentage that is needed to meet your retirement expenses will provide valuable insights and help you to develop your retirement income plan.

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### Estimate Annual Withdrawal: Example

In our example, Mike and Sue are both 65 years old and recently retired. To determine their annual withdrawal percentage rate needed to meet expenses, we will need to calculate 3 totals:

- ♦ Expenses (annual income needed)
- ♦ Income sources (annual)
- ♦ Investment assets

Retirement expenses need to be calculated:

- ♦ On a monthly basis (and multiply by 12 for annual expenses)
- ♦ On an annual basis

# STEP 1: ESTIMATE ANNUAL WITHDRAWALS



## Necessary expenses:

- ♦ Housing (mortgage/rent, property tax, insurance, repairs, furniture/appliances, utilities)
- ♦ Transportation (loan payments, insurance, repairs, gasoline)
- ♦ Income taxes (federal, state, local, payroll)
- ♦ Healthcare (insurance, doctor/dental expenses, prescriptions, long-term care)
- ♦ Food
- ♦ Clothing
- ♦ Misc. (other insurance, other loans)

## Discretionary expenses:

- ♦ Entertainment (dining out, hobbies, movies, membership dues)
- ♦ Travel (vacations, family visits)
- ♦ Gifts (holiday, charitable, family)
- ♦ Misc. (personal items)

Necessary annual expenses  
+ Discretionary annual expenses

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Total annual expenses (income needed) = \$68,550

## STEP 2: IDENTIFY INCOME SOURCES

**To estimate retirement income, each income source needs to be calculated:**

- ♦ On a monthly basis
- ♦ On an annual basis

**Income Sources:**

- ♦ Social Security
- ♦ Pension
- ♦ Employment
- ♦ Rental income
- ♦ Farm income
- ♦ Royalties
- ♦ Trust income
- ♦ Other income sources

Income sources (annual total) = \$45,120



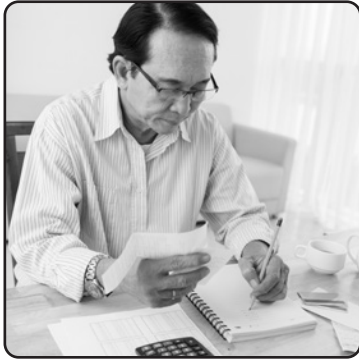
## STEP 3: ESTIMATE INVESTMENT ASSETS

Add up the market value of investment assets that may generate retirement income.

### **Investment Assets:**

- ♦ Savings accounts
- ♦ Certificates of Deposit
- ♦ 401(k), 403(b), SEP-IRA, SIMPLE, 457 Plans
- ♦ IRAs (Traditional, Roth, Inherited)
- ♦ Stocks and bonds
- ♦ Mutual funds and exchange traded funds
- ♦ Deferred annuities
- ♦ Other

Total investment assets = \$585,750



## STEP 4: CALCULATE ANNUAL WITHDRAWAL RATE

Total annual expenses or income needed	\$68,550
- Income sources (annual total)	(\$45,120)
= Annual income required from assets	\$23,430
Annual income required from assets	\$23,430
÷ Total investment assets	\$585,750
= Percentage annual withdrawal rate	4 %

Mike and Sue need a withdrawal rate of 4% to meet their current annual retirement shortfall. Without calculating future inflation, investment returns and taxes, we can see that their annual income shortfall of \$23,430 over 25 years totals \$585,750, which is the total of all of their investment assets. In 25 years, our 65-year-old couple would be 90. One or both of them may still be living and have income needs.

If they are not comfortable with how long their money may last, they may need to:

- ♦ Reduce their elective (optional) expenses
- ♦ Continue to work part-time in retirement
- ♦ Invest somewhat aggressively

Mike and Sue are not too far off, so minor adjustments should hopefully allow them to reach their retirement goals.

# RETIREMENT INCOME WITHDRAWALS

This table shows how many years your money may last. In this chart, annual withdrawals increase by 3% each year to estimate the effects of inflation.



RATE OF WITHDRAWL (FIRST YEAR)	RATE OF RETURN (PRE-TAX)			
	3%	5%	7%	9%
<b>2%</b>	50	158	∞	∞
<b>3%</b>	33	52	∞	∞
<b>4%</b>	25	33	71	∞
<b>5%</b>	20	24	36	∞
<b>6%</b>	16	19	25	44
<b>7%</b>	14	18	22	36
<b>8%</b>	13	14	16	20

## Assumptions:

- ♦ Withdrawals are taken at the beginning of each year
- ♦ After the first year, annual withdrawals increase by 3% each year to compensate for future inflation
- ♦ Results do not include any fees or expenses that would be incurred with an actual investment
- ♦ Hypothetical investment results do not represent any specific product and are for illustrative purposes only

## WITHDRAWING INVESTMENT INCOME FROM YOUR PORTFOLIO

While we may not know how long our lives will last, we often have more control over how much we spend in a given year. The chart below is a good example of what it might take to live off your investments for 10, 20, even 30 years.

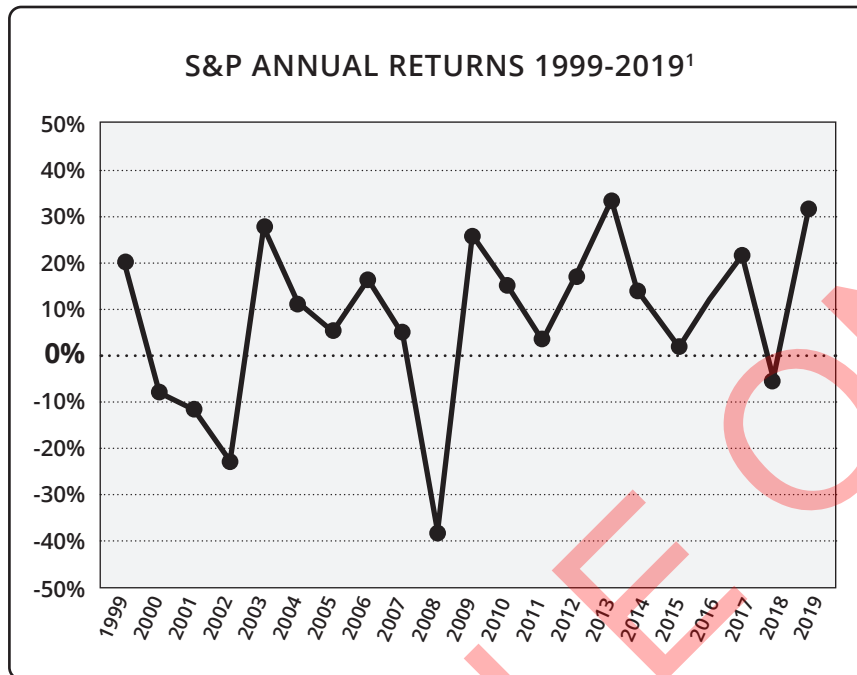
	\$30,000/YR	\$40,000/YR	\$50,000/YR	\$75,000/YR	\$100,000/YR
+30 Years	\$612,032	\$816,043	\$1,020,054	\$1,530,081	\$2,040,108
+25 Years	\$542,882	\$723,842	\$904,803	\$1,357,204	\$1,809,606
+20 Years	\$463,057	\$617,409	\$771,761	\$1,157,642	\$1,543,522
+15 Years	\$370,910	\$494,546	\$618,183	\$927,274	\$1,236,365
+10 Years	\$264,538	\$352,717	\$440,897	\$661,345	\$881,793

Please note that this chart comes with a few assumptions, including the following:

- ♦ 6% average annual yield on balance<sup>1</sup>
- ♦ 3% annual inflation rate
- ♦ All savings are fully invested
- ♦ The principal is \$0 at the end of the stated term

<sup>1</sup> The 6% yield is hypothetical and does not represent any specific investment or strategy.

# IMPACT OF A DECLINING MARKET



When seniors rely on systematic withdrawals from accounts that are subject to market fluctuations, it can make a significant difference when they experience a down market.

In the following example, we'll take a look at the purposefully oversimplified difference between a hypothetical market decline late into retirement compared to a hypothetical decline early in retirement.

Let's begin with the following assumptions:

- ♦ \$1,000,000 nest egg
- ♦ \$50,000 annual withdrawal (5%) over 30 years
- ♦ 3% annual adjustment for inflation

<sup>1</sup> S&P Dow Jones Indices, <http://us.spindices.com/indices/equity/sp-500>

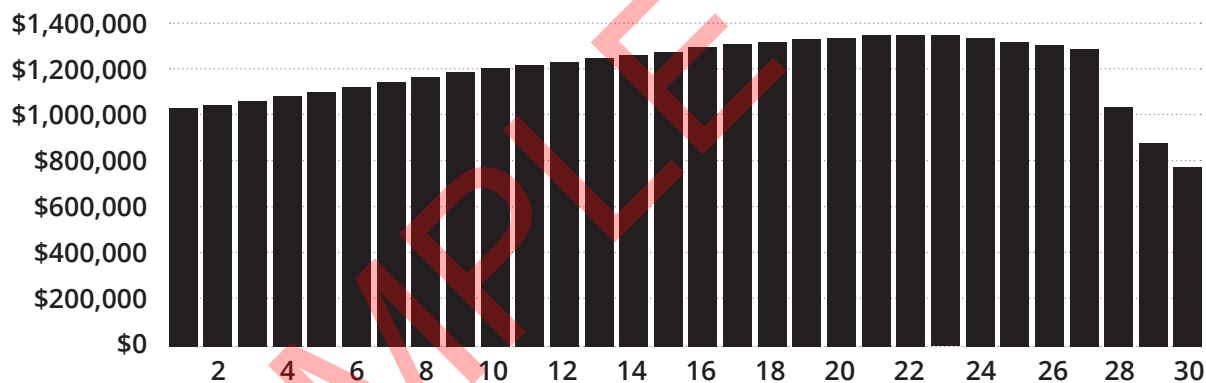


## IMPACT OF DOWN MARKETS

### Scenario 1: Market Decline Late in Retirement<sup>1</sup>

- ♦ Years 1-27: 7.5% annual return
- ♦ Year 28: 10% market decline
- ♦ Year 29: 5% market decline
- ♦ Year 30: 0% market change
- ♦ \$50,000 annual withdrawal, adjusted yearly for 3% inflation

MARKET DECLINE LATE IN RETIREMENT



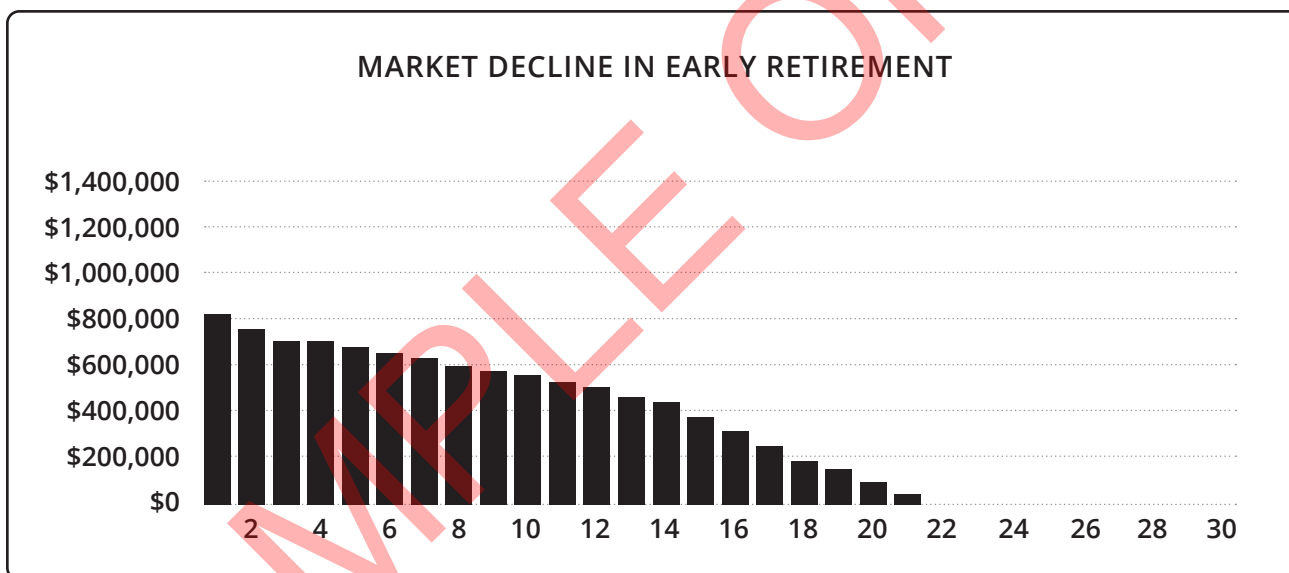
As you can see from this hypothetical example, there is still nearly \$800,000 left in the account despite withdrawals and market decline in the final three years. The account was allowed to grow as the annual withdrawal was smaller than the rate of growth. We'll compare this to an early market decline on the following page.

<sup>1</sup> Return is annualized percentage. Inflation adjustment compounded annually. Withdrawals taken at the beginning of the year. Sales charges and taxes are not considered. Hypothetical illustration, not typical of actual returns or representative of any specific investment.

# IMPACT OF DOWN MARKETS

## Scenario 2: Market Decline in Early Retirement<sup>1</sup>

- ♦ Year 1: 10% market decline
- ♦ Year 2: 5% market decline
- ♦ Year 3: 0% market change
- ♦ Years 4-30: 7.5% annual return
- ♦ \$50,000 annual withdrawal, adjusted yearly for 3% inflation



The same decline early in the withdrawal period has a significant effect. The initial decline resulted in a situation where the annual withdrawals were larger than the rate of growth, meaning the balance declined each subsequent year and in this example was completely depleted after 21 years.

<sup>1</sup> Return is annualized percentage. Inflation adjustment compounded annually. Withdrawals taken at the beginning of the year. Sales charges and taxes are not considered. Hypothetical illustration, not typical of actual returns or representative of any specific investment.

# TAXES & INFLATION

This chart illustrates how income taxes and inflation can impact investment returns and purchasing power.<sup>1</sup>

Investment	\$100,000
Annualized return (5%)	\$5,000
Minus federal income tax (24%)	\$1,200
After-tax earnings	\$3,800

Investment	\$100,000
After-tax earnings	\$3,800
Total value	\$103,800
Minus inflation (3%)	\$3,114
Purchasing power after taxes & inflation	\$100,686

INFLATION RATE	INTEREST RATE NEEDED TO MAINTAIN PURCHASING POWER IN FEDERAL TAX BRACKETS						
	10%	12%	22%	24%	32%	35%	37%
1%	1.11%	1.14%	1.28%	1.32%	1.47%	1.54%	1.59%
2%	2.22%	2.27%	2.56%	2.63%	2.94%	3.08%	3.17%
3%	3.33%	3.41%	3.85%	3.95%	4.41%	4.62%	4.76%
4%	4.44%	4.55%	5.13%	5.26%	5.88%	6.15%	6.35%
5%	5.56%	5.68%	6.41%	6.58%	7.35%	7.69%	7.94%

<sup>1</sup> This illustration is hypothetical and does not represent the performance of any investment product.



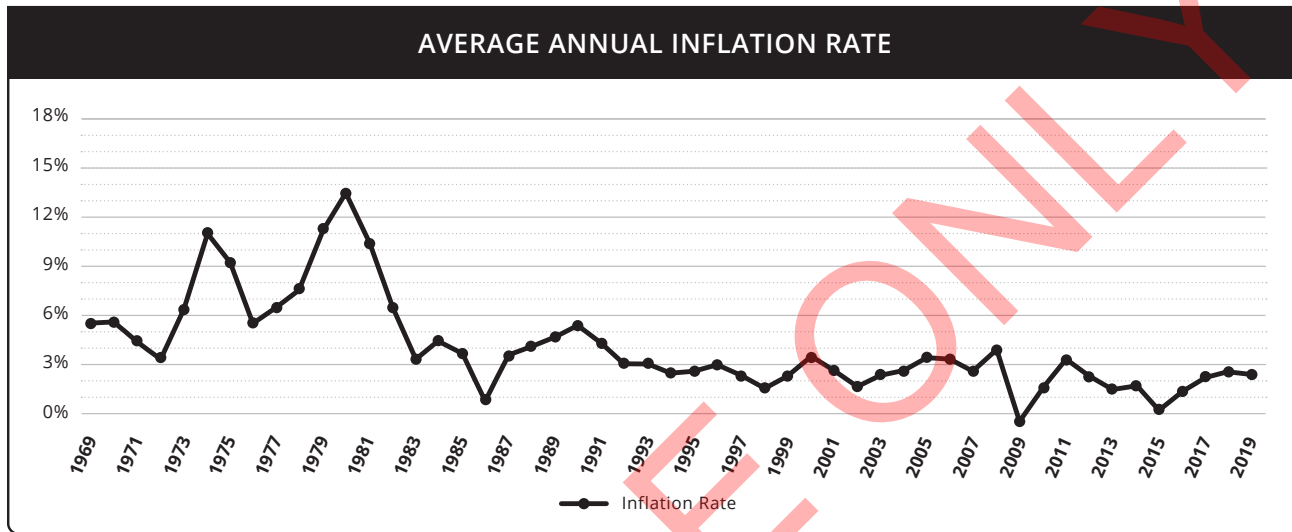
# 2020 FEDERAL TAX BRACKETS

STATUS	TAXABLE INCOME	MARGINAL TAX RATE
Single	Up to \$9,875	10%
	\$9,876 - \$40,125	12%
	\$40,126 - \$85,525	22%
	\$85,526 - \$163,300	24%
	\$163,301 - \$207,350	32%
	\$207,351 - \$518,400	35%
	\$518,401+	37%
Married, Filing Jointly	Up to \$19,750	10%
	\$19,751 - \$80,250	12%
	\$80,251 - \$171,050	22%
	\$171,051 - \$326,600	24%
	\$326,601 - \$414,700	32%
	\$414,701 - \$622,050	35%
	\$622,051+	37%
Married Filing Separately	Up to \$9,875	10%
	\$9,876 - \$40,125	12%
	\$40,126 - \$85,545	22%
	\$85,546 - \$163,300	24%
	\$163,301 - \$207,350	32%
	\$207,351 - \$311,025	35%
	\$311,026+	37%
Head of Household	Up to \$14,100	10%
	\$14,101 - \$53,700	12%
	\$53,701 - \$85,500	22%
	\$85,501 - \$163,300	24%
	\$163,301 - \$207,350	32%
	\$207,351 - \$518,400	35%
	\$518,401+	37%

Source: IRS.gov

# UNDERSTANDING INFLATION

Over time, inflation erodes the purchasing power of your dollars. Historical statistics show that inflation can be volatile and unpredictable. A low inflation rate today doesn't guarantee a low or even moderate inflation rate over the next 20-30 years.



Source: Consumer Price Index, 1969 – 2019. For illustrative purposes only.

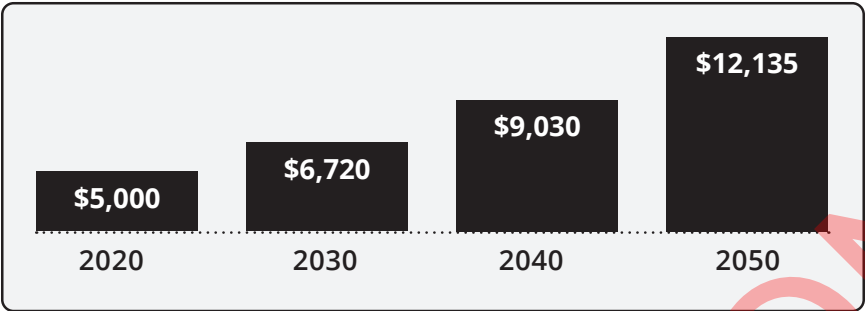
Like any rate, inflation is compounding. This is an important planning consideration, especially for anyone retiring on a fixed income. The following table shows how much money would be required to equal one dollar of today's purchasing power under a number of hypothetical annual inflation scenarios.<sup>1</sup>

AVERAGE YEARLY INFLATION	1%	2%	3%	4%	5%
<b>2020</b>	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000
<b>2025</b>	\$1.051	\$1.104	\$1.159	\$1.227	\$1.276
<b>2030</b>	\$1.105	\$1.219	\$1.344	\$1.480	\$1.629
<b>2035</b>	\$1.161	\$1.346	\$1.558	\$1.801	\$2.079
<b>2040</b>	\$1.220	\$1.486	\$1.806	\$2.191	\$2.653
<b>2045</b>	\$1.282	\$1.641	\$2.094	\$2.666	\$3.386
<b>2050</b>	\$1.348	\$1.811	\$2.427	\$3.243	\$4.322

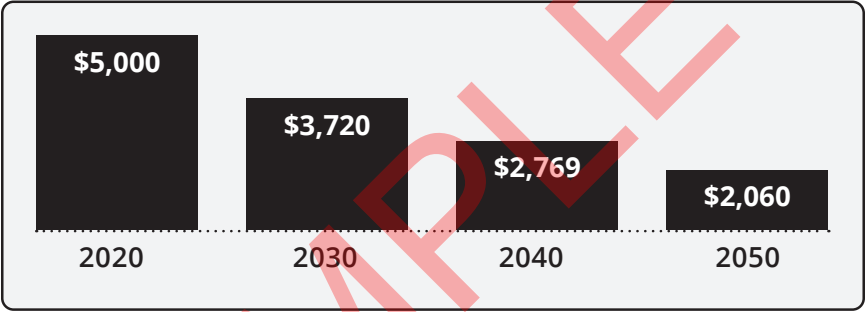
<sup>1</sup> Calculations and amounts are approximate due to rounding. Inflation has been compounded annually. This table is not intended to predict or represent any actual historical period.

# UNDERSTANDING INFLATION

At a hypothetical 3% annual inflation rate, how much monthly income would be required to create the equivalent of \$5,000 in today’s dollars?<sup>1</sup>



At a hypothetical 3% annual inflation rate, what might be the future purchasing power of \$5,000?



<sup>1</sup> Charts for illustrative purposes only.