Fiduciary Financial Group

8 KEY WAYS TO AVOID RUNNING OUT OF MONEY IN RETIREMENT

Boise, ID | 208-401-3747 | Richard@ffgwealth.com

Fiduciary Financial Group

Hi, we're FFG.

We guide our clients through the various challenges of shifting from the accumulation phase of life to the distribution phase… namely the significant impact it [should] have on the client's investment strategy, distribution strategy, social security elections, insurance coverage, and mortgage financing.

Meet the Author: Richard Davey, CPA, CFP®

Richard is the founder of Fiduciary Financial Group, an independent fee-only registered investment advisor in Idaho and California. By 30 years old, his firm had eclipsed $50 million in assets under management. He's been featured in RIA Business Journal and made several appearances on California's Wall Street Business Network radio. He is a resident of Eagle, Idaho.

Fiduciary Financial Group

1 Consider a dynamic withdrawl strategy

Taking money out of your portfolio when you've had a bad year in the market can be incredibly damaging. Why? If you have $500,000 saved for retirement and your portfolio loses 15% ($75k) and you are taking out another 4% to live on ($20k), it will have dropped to $405,000. Just to get back to even at $500k, a return of over 23% is needed the following year just to get back to square one. Given the need to be more conservative in retirement (and most retirees reduced appetite for risk taking, particularly after a loss year) banking on a 23% recovering return is ill-advised. A dynamic withdrawal strategy involves setting up two distinct budgets. One to use during "good" or positive returning years in your portfolio and one more meager budget for years when your portfolio is down. Maybe the latter budget removes vacation expenses for the year and cuts dining out in half. This, to allow more money to stay in your portfolio to recover after a period of loss.

2 Coordinate the use of home equity into your retirement income plan.

Home Equity Conversion Mortgage Lines of Credit (aka Reverse Mortgage Lines of Credit) can be an outstanding tool to incorporate into a withdrawal strategy. Compelling research done by Dr. Wade Pfau, PhD and CFA®, a professor of retirement income for the American College of Financial Services, suggests a substantial increase in the probability of portfolio longevity (your liquid assets lasting longer than you do) when deploying this strategy vs. relying on your portfolio alone.

3 Consistently focus on investments with lower expenses

This one is obvious but is so frequently ignored. While there are certain higher cost strategies that may be justified for components of your portfolio that are more difficult to access (private real estate investments, private equity, private debt, etc.) we feel the core components should consist of funds with below average expense ratios. This can be confirmed with a quick visit to Morningstar.com where you can look up your mutual fund's ticker symbol and assess the reasonableness of its fees. Further, if you are going to work with a professional financial advisor, management fees should be negotiated down to 1% or less. With safe money yields being so low, it's hard to justify fees higher that this without giving too material a percentage of your earnings back to your advisor to deploy the strategy.

4 Avoid investments with permanent loss risk

There IS a place for more volatile investments in your portfolio as a retired individual, so long as those investments can be held for longer time periods and have strong track records of reliable above-inflation returns when given a long enough time period to work. The classic case here is stocks. An investment in a globally diversified stock portfolio will be a wild ride, but, over a 10+ year time horizon, the odds of returns being superior to the rate of inflation are very high. This type of risk taking can be wise as you need a portion of your portfolio to outpace inflation while a large chunk of it is being used to meet your required income needs for current expenses. At the same time, the odds of this portfolio draining to $0 (a permanent loss), or even being negative over 10 years (a sustained loss) if you don't withdraw from it are very low.

Conversely, investments with permanent loss risk (individual high yield bonds, hedge funds, VC funds, leveraged real estate funds, etc.) create a potential for damage that can't be undone…. money lost for good. Typically, unless a client is very wealthy and can afford carving out a piece of their nest egg for such investments while having plenty left over to fund retirement even if the carve out goes to zero, this type of exposure should be avoided.

5 Outline a Long-Term Care strategy

Any financial advisor who says they do “comprehensive” retirement planning who doesn’t review LTC needs in retirement is, in our opinion, committing the offense of false advertising. Realistically, not everyone can justify the cost of the insurance which is rather expensive. But, remember that it is expensive because the probability of a claim (i.e. you needing care for a sustained period of time to treat or maintain a chronic condition) is very high. For instance, the lifetime chance someone who buys a policy at age 60 will use their policy before they die is 50%! Don’t take our word for it – check the website link below. This is one of our favorite websites for statistics on long-term care:

http://www.aaltci.org/long-term-care-insurance/learning-center/fast-facts.php

If you feel you can’t justify LTC insurance, you need to review alternatives:

- What family do you have in the area that could rotate providing assistance?
- Do you have sufficient resources, if you sell your primary residence and move to assisted living to self-insure against a sustained long-term care claim.
- Have you visited a state-funded Medicaid facility? If you visit you may find that ending up in one of those facilities (if you run out of money and can’t pay for care yourself) is not a terrible outcome.

6 Avoid Illiquid and complex investments

It's important to note that in finance, complexity is often built into products to give them more marketing appeal in the form of exclusivity. This isn't something you could do yourself, or, not everyone has "access" to this investment. In finance, the KISS (keep it simple stupid acronym) is most often the best route. Complex investments are often all designed as such to get something by the investor. For instance, many deferred variable annuities sold to folks in their late 50s or 60s are designed in such a way to essentially be nothing more than a delayed return of principal on the funds if the annuitant dies in his/her 80s, with only a 3-4% annualized return potential if you live into your 90s. Well, with the 30 year High Quality Market Corporate Bond Spot rate paying 4.54% as of the date of this article, with a return of principal at maturity (if you bought a diversified basket of corporate bond) we're not seeing the appeal of most of those deferred annuities sold by insurance agents who stand to make 5% or more in commission on your investment. We could share similar anecdotes to encourage you to avoid highly leveraged (and highly illiquid) real estate investment trusts where possessing a CPA or, at the very least a degree in finance or related field, is necessary to understand the offering documents.

7 Hire an advisor

A Certified Financial Planner™ is the type of professional we would recommend, but then again, we might be biased on this topic. It's hard to get over the fees involved in working with a pro, but there have been a number of studies to support that the value added by a financial advisor far outweighs their cost. Here are a few references – Vanguard has a great piece that attempts to value solid financial advice [1]. Dalbar puts out a piece each year[2] that continues to show the pitiful underperformance of retail investors relative to both stock and bond indexes – primarily driven by poor investor behavior. This component of underperformance SHOULD be something that can be addressed by a solid behavioral coach / financial advisor. Obviously, some advisors will add more value than others, and for this reason you MUST do a lot of home work to pick the right one. Check out our piece discussing the different ways advisors get paid[3].

1. https://www.vanguard.com/pdf/ISGQVAA.pdf
2. https://www.marketwatch.com/story/americans-are-still-terrible-at-investing-annual-study-once-again-shows-2017-10-19
3. https://medium.com/ffgwealth/looking-for-a-financial-advisor-1b5981e085fc

8 Consider part-time employment

The most impossible thing to control (and probably one of the largest risks to a new retiree) is having a bear market occur in the early years of retirement. In fact, having it happen early is far more devastating than having the market tank toward the end of your life / retirement timeline. This is a testament to "sequence of returns risk". If you haven't heard about it, check out this article[1]. One of the best ways to mitigate this risk is to have part-time income in the early years of retirement. It sounds obvious, but every dollar earned (after tax) is a dollar of your retirement principal you can keep to grow for a later year when you may not be able to work. If you can reduce your withdrawal rate by 1-2% via part-time income for the first 5-7 years of real retirement, your odds of success are likely to improve considerably. This is a great article[2] with a list of in-demand jobs for those in their 60s.

1. https://www.blackrock.com/pt/literature/investor-education/sequence-of-returns-one-pager-va-us.pdf
2. https://money.usnews.com/money/retirement/second-careers/slideshows/15-in-demand-jobs-for-seniors?onepage

Investment advisory services offered through Advisor's Fiduciary Group, LLC dba Fiduciary Financial Group is a Registered Investment Advisor in the States of California and Idaho. Richard Davey, Sole Proprietor and Trevor Scotto, Sole Proprietor are independently licensed insurance agents. They service insurance products they previously sold through carriers with whom they have appointments and sales relationships. They no longer sell insurance products to new customers and all recommended insurance strategies are outsourced via reference to outside insurance professionals. FFG personal receive no renumeration for these referrals.

Investment strategies are subject to risks, including possible loss of principal. Investments may be volatile and past performance is not indicative of future performance. Fiduciary Financial Group outgoing and incoming emails are electronically archived and subject to review and/or disclosure to someone other than the recipient. We cannot accept requests for securities transactions or other similar instructions through email. We cannot ensure the security of information e-mailed over the Internet, so you should be careful when transmitting confidential information such as account numbers and security holdings. If the reader of this message is not the intended recipient, or an employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by replying to this message and deleting it from your computer. No information constitutes tax, insurance, legal or investment advice. All written content is for informational purposes only. Opinions expressed herein are solely those of Fiduciary Financial Group. Material presented is believed to be from reliable sources; however, we make no representations as to its accuracy or completeness. Fiduciary Financial Group is not affiliated with or endorsed by the Social Security Administration or any government agency and are not engaged in the practice of law. Content should not be viewed as an offer to buy or sell any of the securities mentioned or as legal or tax advice. You should always consult an attorney or tax professional regarding your specific legal or tax situation. Images and photographs are included for the sole purpose of marketing. None of them are photographs of current or former clients. They would not be construed as an endorsement or testimonial from any of the persons in the photograph.

Boise, ID | 208-401-3747 | Richard@ffgwealth.com