

Overcoming Financial Pitfalls

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objectives

- Review the risks that threaten to erode wealth
- Reveal financial strategies for safeguarding assets

Risks: Six events that threaten to erode
wealth

Risks

These situations have the potential to jeopardize your finances and your family's future:

Emergencies

Would you have sufficient protection if you suddenly lost your job or had a medical emergency?

Long-Term Care (LTC)

Do you have enough assets to cover the potential need for LTC?

Disability

Could you financially withstand a short- or long-term loss of work or disability?

Market Volatility

Are your accounts set up to protect your investments in cases of economic recessions, corrections, and bear markets?

Death

Is your estate set up to ensure your heirs receive their inheritance efficiently?

Longevity

People live longer these days – will your money outlive you?

Strategies for safeguarding your finances

Plan for emergencies

Build an emergency fund

- Enough funds to cover at least six months of mandatory expenses
 - Liquid, penalty-free, readily-accessible, and not subject to fluctuation in value

Use insurance to supplement unexpected expenses

- Property, casualty, umbrella, and disability insurance policies can save you from dipping into or depleting emergency funds or other sources of money

Reduce minimum debt payment amounts

- Work on being debt-free; lowering minimum credit card payments frees up more money to allocate to savings
 - Take advantage of 0% balance credit card transfers
 - Refinance your house
 - Loan money to yourself from existing accounts

Supplement income if you become disabled

- Apply for disability retirement through FERS
- Eligibility requirements and payment formulas vary, but generally:
 - Under age 62
 - During first 12 months: 60% of your highest three years' salary minus 100% of your SSDI benefit;
 - After 12 months: 40% of your highest three years' salary minus 60% of your SSDI benefit
 - Age 62 or older
 - You will receive your normal pension
 - Years of service while disabled will count

Purchase an individual disability insurance policy

Policies generally pay up to 60% of your salary

Establish an estate plan

Obtain a valid will package

Typically, wills come as a package that includes three parts:

Last will and testament

Outlines what happens to your assets after your passing

Living will

Expresses your medical care wishes (life support, resuscitation, etc.)

Powers of attorney

Designate who can make medical and financial decisions for you

Create a trust

Specifies exactly how and when your beneficiaries receive their inheritance and authorizes a trustee to hold and distribute your assets accordingly

Typically used to:

Protect estate and manage taxes

Control asset distribution

Avoid probate

Obtain life insurance

Turn taxable assets into tax-free assets and settle estate taxes

Bypass probate

Anticipate the need for long-term care (LTC)

Long-Term Care is:

A range of services that support personal care needs, including **assistance with non-medical activities** of daily living (ADLs) **and everyday tasks**

Statistics

- 8% of people between ages 40 and 50 have a disability that could require long-term care services
- People aged 65+ have a 70% chance of needing LTC at some point in life
- Women need care an average of 3.7 years, compared to 2.2 years for men
- 20% of people 65+ will need care longer than five years

Anticipate the need for long-term care

Long-term care (LTC) is a range of services that support personal care needs, including assistance with non-medical activities of daily living (ADLs) and everyday tasks

Long-term care insurance options

- **Traditional LTC insurance**
 - Customer pays a premium; if an LTC event occurs, the policy pays a benefit
- **Hybrid LTC insurance**
 - Typically, a life insurance policy that has a LTC benefit
- **Asset-based LTC insurance**
 - Customer makes a lump sum deposit; if an LTC event occurs, the policy pays a benefit
- **Special annuities**
 - Typically for those who can't get underwritten for other insurance; increases the payout if an LTC event occurs

1 - Be mindful of market volatility

- Where you are in your life means volatility will affect you differently
- Volatility and market corrections can be your friend in younger years



2 - Be mindful of market volatility

The Sequence of Returns becomes paramount a few years before you'd like to retire

Retiring at the Beginning of an up market				Retiring at the Beginning of a down market			
Year	Investment Value	Withdrawals	Return	Year	Investment Value	Withdrawals	Return
0	\$100,000	N/A	N/A	0	\$100,000	N/A	N/A
1	\$103,000	\$5,000.00	8.00%	1	\$90,000	\$5,000.00	-5.00%
2	\$109,330	\$5,000.00	11.00%	2	\$79,600	\$5,000.00	-6.00%
3	\$124,009	\$5,000.00	18.00%	3	\$62,660	\$5,000.00	-15.00%
4	\$136,371	\$5,000.00	14.00%	4	\$52,647	\$5,000.00	-8.00%
5	\$147,735	\$5,000.00	12.00%	5	\$45,541	\$5,000.00	-4.00%
6	\$156,031	\$5,000.00	9.00%	6	\$42,818	\$5,000.00	5.00%
7	\$168,195	\$5,000.00	11.00%	7	\$40,816	\$5,000.00	7.00%
8	\$178,332	\$5,000.00	9.00%	8	\$39,489	\$5,000.00	9.00%
9	\$185,816	\$5,000.00	7.00%	9	\$38,833	\$5,000.00	11.00%
10	\$190,106	\$5,000.00	5.00%	10	\$37,328	\$5,000.00	9.00%
11	\$177,502	\$5,000.00	-4.00%	11	\$36,807	\$5,000.00	12.00%
12	\$158,302	\$5,000.00	-8.00%	12	\$36,960	\$5,000.00	14.00%
13	\$129,557	\$5,000.00	-15.00%	13	\$38,613	\$5,000.00	18.00%
14	\$116,783	\$5,000.00	-6.00%	14	\$37,860	\$5,000.00	11.00%
15	\$105,944	\$5,000.00	-5.00%	15	\$35,889	\$5,000.00	8.00%

Average Return: 4.0%

Average Return: 4.0%

Despite having the same average annual return, **Investor Blue** has \$70,055 more than **Investor Green** due to their sequence of returns.

1 - Shield your investments

- **Asset allocation**

- Different for everyone
- Rule of 100

- **Volatility-controlled indexes**

- Partially consists of stocks; the rest is comprised of cash, which has zero volatility
- When stock volatility is high, the index adjusts its asset mix to use more cash and less stock
- Many volatility-controlled indexes are only available within annuities

Important Note:

These vehicles all have inherent risks and should be discussed with a licensed investment professional to determine if they are right for you. The above is intended as general education.

2 - Shield your investments

- **“Stocks”**

- All kinds of investments, but most utilize index type funds, such as the S&P500
 - Subject to large fluctuations at a moment’s notice (e.g., March 2020)

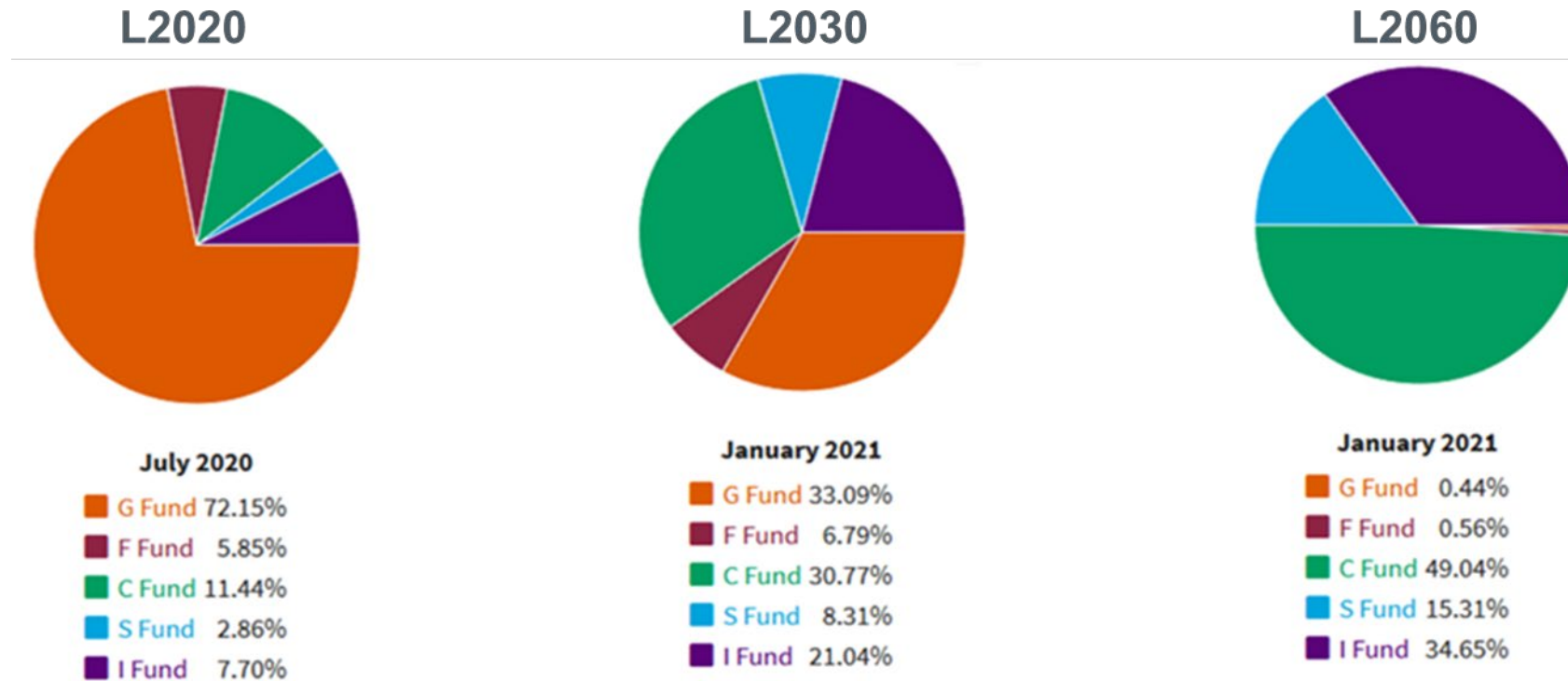
- **“Bonds”**

- Typically, less risky because they tend to be less volatile than stocks
- Allows you to lend money to the bond issuer for the right to receive simple interest for a set amount of time

3 - Shield your investments

- **Lifestyle Funds**

- A mix of the index funds in accordance with how close you are to retirement.



4 - Shield your investments

- **Annuities**

- **Single Premium Immediate Annuity:** Insurance-based product (IBP); Customer places a lump sum of money and receives a guaranteed amount of income over their lifetime
- **Fixed Annuity:** IBP; Customer places a lump sum of money and receives a pre-determined fixed amount of interest for a fixed time period
- **Variable Annuity:** A financial product that often has two sides:
 - The account value side: Gains and losses with underlying investments
 - The income value side: Provides a guaranteed base which can be turned into a lifetime stream of income
- **Fixed Index Annuity:** IBP; Customer places a lump sum of money and earns interest based on the performance of an underlying index

Important Note:

Many annuities offer flexibility to take money at your leisure or leave it behind with no strings attached to your heirs.

Bank on being here longer

- Protection becomes paramount – extreme events such as market corrections could significantly affect cash flow in retirement
- Consider your income needs in retirement
 - If you could get a check every month, after all your taxes were paid, what would it be?
 - Once that number is established, safeguard it!
- The Prudent Person Rule – A prudent person could pull 4% of their investments every year, without draining their account balance over the course of their lives

Summary

Don't underestimate how long you will live in retirement

- Plan for emergencies by ensuring you have liquidity, and control of your money
- Have a disability contingency plan in place
- Ensure assets can pass on efficiently upon death to minimize probate and taxes
- Evaluate how you will pay for LTC if the need arises
- Consider your investment strategy and diversification the closer you get to retirement

Resources

Websites

[Click here for Federal Retirement Planning](#)

[Click here for Office of Personnel Management](#)

[Click here for Social Security Administration](#)

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