



# RETIREMENT PLANNING: STRATEGIES FOR SAFEGUARDING YOUR FINANCES

A WEBINAR FOR EMPLOYEES FROM YOUR  
EMPLOYEE ASSISTANCE PROGRAM

April 14, 2021



Federal  
Occupational  
Health

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# OBJECTIVES

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



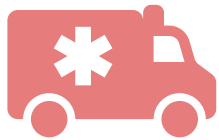
SECTION 1

# 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?



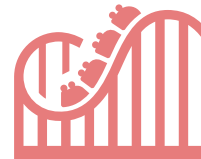
## Long-Term Care (LTC)

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?

SECTION 2

# STRATEGIES FOR SAFEGUARDING YOUR FINANCES



# PLAN FOR EMERGENCIES

## Build an emergency fund

- Have 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 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:

### 1. Last will and testament

- Outlines what happens to your assets after your passing

### 2. Living will

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

### 3. 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

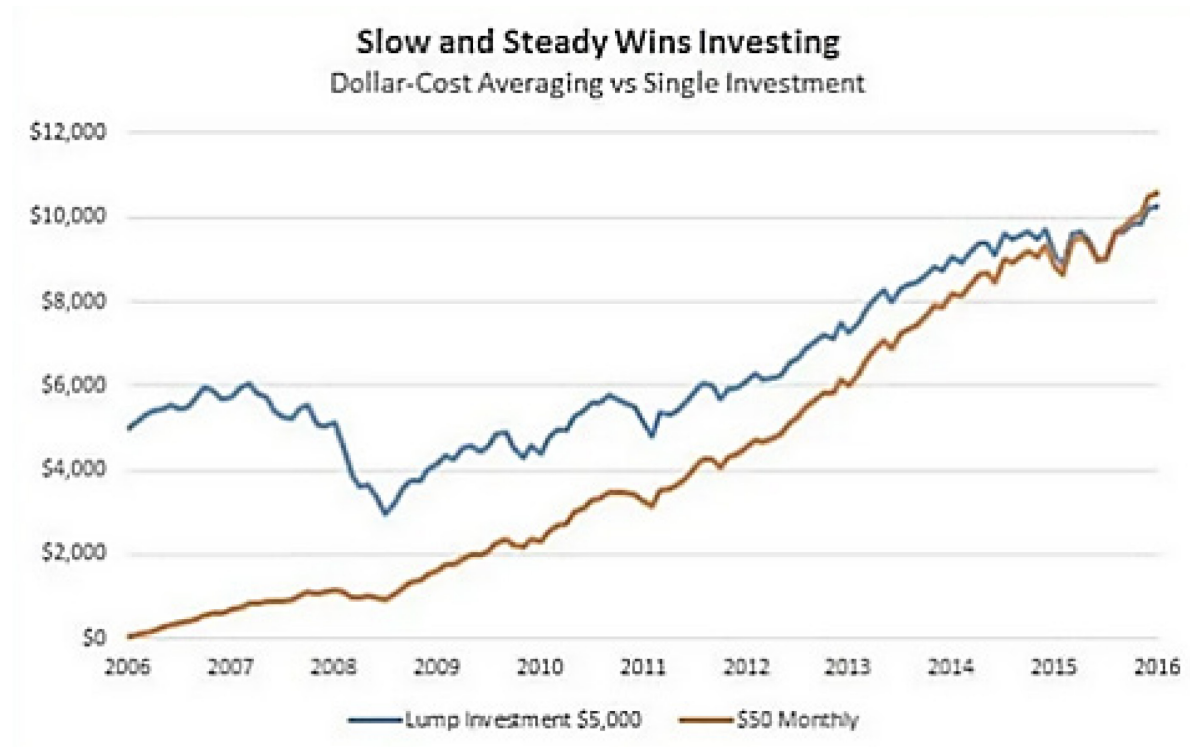
## Long-term care insurance options

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



# 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



Source: Yahoo Finance (data), My Stock Market Basics blog



# 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			
Year	Investment Value	Withdrawals	Return
0	\$100,000	N/A	N/A
1	\$103,000	\$5,000.00	8.00%
2	\$109,330	\$5,000.00	11.00%
3	\$124,009	\$5,000.00	18.00%
4	\$136,371	\$5,000.00	14.00%
5	\$147,735	\$5,000.00	12.00%
6	\$156,031	\$5,000.00	9.00%
7	\$168,195	\$5,000.00	11.00%
8	\$178,332	\$5,000.00	9.00%
9	\$185,816	\$5,000.00	7.00%
10	\$190,106	\$5,000.00	5.00%
11	\$177,502	\$5,000.00	-4.00%
12	\$158,302	\$5,000.00	-8.00%
13	\$129,557	\$5,000.00	-15.00%
14	\$116,783	\$5,000.00	-6.00%
15	<b>\$105,944</b>	\$5,000.00	-5.00%

Average Return: 4.0%

Retiring at the Beginning of a down market			
Year	Investment Value	Withdrawals	Return
0	\$100,000	N/A	N/A
1	\$90,000	\$5,000.00	-5.00%
2	\$79,600	\$5,000.00	-6.00%
3	\$62,660	\$5,000.00	-15.00%
4	\$52,647	\$5,000.00	-8.00%
5	\$45,541	\$5,000.00	-4.00%
6	\$42,818	\$5,000.00	5.00%
7	\$40,816	\$5,000.00	7.00%
8	\$39,489	\$5,000.00	9.00%
9	\$38,833	\$5,000.00	11.00%
10	\$37,328	\$5,000.00	9.00%
11	\$36,807	\$5,000.00	12.00%
12	\$36,960	\$5,000.00	14.00%
13	\$38,613	\$5,000.00	18.00%
14	\$37,860	\$5,000.00	11.00%
15	<b>\$35,889</b>	\$5,000.00	8.00%

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.



# 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.



# SHIELD YOUR INVESTMENTS

## – TSP

- C, S, and I funds are “equity” funds tied to underlying stock indexes and are therefore inherently “risky”
  - » Subject to large fluctuations at a moment’s notice (e.g., March 2020)
- G and F funds are conservative funds
  - » The G fund is simply government interest (fixed amount no matter what)
  - » The F fund is a “debt” fund, or a “bond” fund

## – “Bonds” / F Fund

- 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



# SHIELD YOUR INVESTMENTS

## – TSP lifecycle funds

- A mix of the C, S, I, F, and G funds in accordance with how close you are to retirement. Here are the allocation targets for each fund:

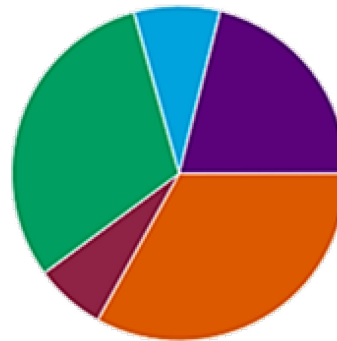
### L2020



July 2020

G Fund	72.15%
F Fund	5.85%
C Fund	11.44%
S Fund	2.86%
I Fund	7.70%

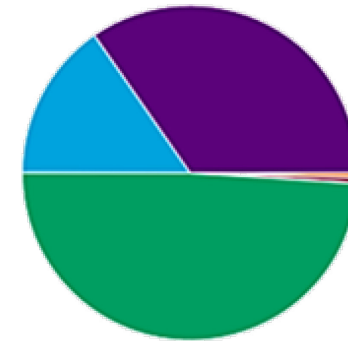
### L2030



January 2021

G Fund	33.09%
F Fund	6.79%
C Fund	30.77%
S Fund	8.31%
I Fund	21.04%

### L2060



January 2021

G Fund	0.44%
F Fund	0.56%
C Fund	49.04%
S Fund	15.31%
I Fund	34.65%





# 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 loses 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

- Federal Retirement Planning
  - <https://www.federalretirement.net>
- Office of Personnel Management
  - [opm.gov/retirement-services](https://opm.gov/retirement-services)
- Social Security Administration
  - [ssa.gov/benefits/retirement](https://ssa.gov/benefits/retirement)
- USA.gov
  - [usa.gov/retirement](https://usa.gov/retirement)
- Free Financial Advice
  - [free-financial-advice.net](https://free-financial-advice.net)
- The Institute for Financial Education
  - [ifeonline.org](https://ifeonline.org)
- Women’s Institute for Financial Education
  - [wife.org/retirement](https://wife.org/retirement)

## Podcast

- Money Confidential
  - [realsimple.com/money/money-confidential-podcast](https://realsimple.com/money/money-confidential-podcast)

# THANK YOU



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