



RECESSION-READY RETIREMENT FOR YOUR FUTURE WELL-BEING

**A WEBINAR FOR EMPLOYEES FROM YOUR
EMPLOYEE ASSISTANCE PROGRAM**

April 12, 2023

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OBJECTIVES

- Review the five parts to a financial plan
- Understand the types of investment asset classes
- Discuss the critical role that income plays in retirement
- Explain the fundamentals of healthcare and long-term care
- Identify the benefits of long-term tax planning
- Outline the importance of legacy planning

RETIREMENT QUESTIONS TO PONDER



How do I make financial decisions for my family?



Do I know with 100% certainty that we are going to be okay, regardless of what happens?



Do I have a plan?



Do I have guidance?

FIVE CRITICAL PIECES TO A PLAN

Investments



1

Income



2

Healthcare



3

Taxes



4

Legacy



5

SECTION 1

INVESTMENTS



Be intentional with your plan
Consider what you want to
happen and why

INVESTMENTS

Four major asset classes



Capital appreciation assets

- Such as the C, S, or I funds in TSP



Fixed income / interest assets

- Such as the G or F funds in TSP



Hybrid assets

- Dividend-paying stocks and mutual funds



Insurance assets

- Life insurance and annuity products that offer protection from tax increases, market volatility, and long-term care

INVESTMENTS: A TALE OF TWO RETIREMENTS

Retired in 2000

Year	Total Return	WD	Balance
2000	-9.11%	\$ 30,000	\$ 427,183
2001	-11.98%	\$ 30,000	\$ 349,600
2002	-22.27%	\$ 30,000	\$ 248,425
2003	28.72%	\$ 30,000	\$ 281,157
2004	10.82%	\$ 30,000	\$ 278,332
2005	4.79%	\$ 30,000	\$ 260,228
2006	15.74%	\$ 30,000	\$ 266,465
2007	5.46%	\$ 30,000	\$ 249,376
2008	-37.22%	\$ 30,000	\$ 137,725
2009	27.11%	\$ 30,000	\$ 136,929

Retired in 2010

Year	Total Return	WD	Balance
2010	14.87%	\$ 30,000	\$ 539,889
2011	2.07%	\$ 30,000	\$ 520,444
2012	15.88%	\$ 30,000	\$ 568,326
2013	32.43%	\$ 30,000	\$ 712,905
2014	13.81%	\$ 30,000	\$ 777,215
2015	1.31%	\$ 30,000	\$ 757,003
2016	11.93%	\$ 30,000	\$ 813,735
2017	21.94%	\$ 30,000	\$ 955,686
2018	-4.41%	\$ 30,000	\$ 884,863
2019	31.10%	\$ 30,000	\$ 1,120,726

This hypothetical example is for illustrative purposes only and does not represent any specific product and/or service. It should not be deemed a representation of past or future results, and it is not a guarantee of return or future performance.

Review the data here: investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp

SECTION 2

INCOME



There is no retirement
without **income**

INCOME



Common questions

- Am I going to be okay?
- Will my spouse be okay?
- Can I retire?
- When can I retire?
- What amount of assets do I need?
- Are my asset allocations correct?
- Do I have enough money?
- If I do retire, can I stay retired?



INCOME: MIND THE GAP

1

Determine your income need

- What is your take-home pay (after taxes, insurance, and any systematic savings)?
 - Your retirement income should match this to maintain your quality of life

2

Find your income gap

- Income need
- FERS/CSRS Pension and Social security
- = Income Gap

3

Formulate a plan



SAFETY, INCOME, AND GROWTH

Safety

- Build an emergency fund (about six months of your income need)
 - Cash
 - Money market
- Accounts should be liquid, readily available, and stable

Income

- Identify sources of steady, reliable income
 - Social Security, pension, interest, dividends, notes, annuities, high yield bonds, covered market calls
- Ensure it meets your income gap

Growth

- Investments that are not needed in the immediate term that can handle volatility
 - Stocks
 - Bonds
 - Mutual Funds
 - C,S,I fund inside of the TSP
 - Long-term care

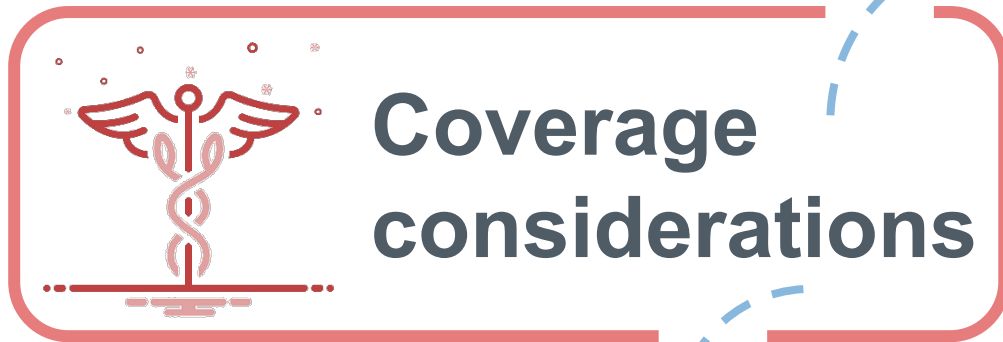
SECTION 3

HEALTHCARE



Healthcare is vital when
retiring in a recession

HEALTHCARE

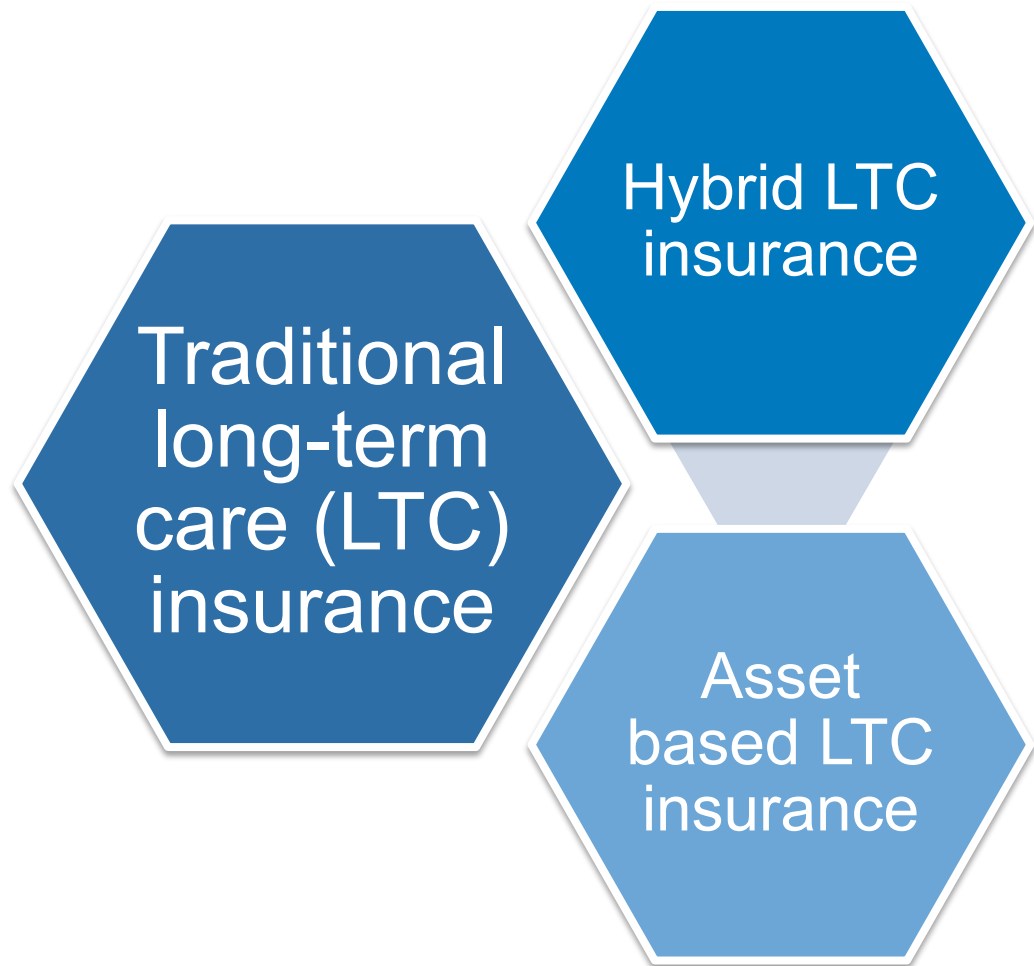


You will keep
FEHB in retirement
or you will use
Medicare Part B

- Are you going to be okay regardless of what happens?
 - **Health event:** Illness or long-term care
 - **Market fluctuations:** Economic corrections
 - **Unexpected longevity:** You live longer
 - **Early death:** You or your spouse dies pre-maturely
 - **Modified legislation:** Laws change, especially around taxes

HEALTHCARE: LONG-TERM CARE

Consider getting professional guidance on protection for your “Growth” bucket



SECTION 4

TAXES



Stay up to date on
tax laws

TAXES

Three things to account for



Estate tax

- Special tax on all property/assets
 - Currently 37% on all assets above \$11.5 million

NOTE: Some states may have their own tax amount, so be sure to check yours



Income tax

- Know how your IRA will be taxed when transferred to your heirs
 - Traditional IRAs and TSPs are taxed at ordinary rates
 - Surviving spouses are in the higher “single” tax bracket
- Trust tax pitfall: Rates are significantly higher than individual tax rates



Stepped-up basis policy loophole

- Allows you to pass down an appreciated asset to an heir without triggering a tax event
- This may go away soon

TAXES: TOOLS FOR PLANNING

Order of assets

Pull from the right accounts at the right time to limit tax exposure

Proper Social Security planning

Work toward tax-free income streams to limit SS taxes

Roth conversions

There's never been a better time than right now

Tax-sheltered life insurance

Use as an estate transfer and a protection tool with tax-free benefits

Asset-based long-term care

A way to protect finances with tax-free assets

Specialized tools for a special situation

A plethora of tools exist, depending on your situation – consult an advisor

SECTION 5

LEGACY



Have a plan for your
assets and heirs after you die

LEGACY

What happens to your estate after you die?



It either:

– **Passes directly to your heirs**

- Direct beneficiaries
- Beneficiary deeds
- TODs and PODs
- Trusts
- Life and annuity proceeds

– **Goes to probate court**

- If you don't designate beneficiaries, a court decides who gets what
- This process is:
 - » Costly
 - » Protracted
 - » Unpredictable in terms of the outcome
 - » Contestable
 - » Public

SECTION 6

EXAMPLE



Can John
retire comfortably?

ASSUMPTIONS

John will retire at 65



Income need:
\$50,000/year



Current assets:
\$600,000

SAFETY AND INCOME



Safety:

- John has \$25,000 in cash to protect six months of his income need



Income:

- John has \$33,000 from Social Security/pension
- John set up an annuity a couple years ago for \$225,000
 - Provides \$15,000 of income a year for life and doubles if an LTC event occurs
 - When John dies, his heirs get the balance, which covers his entire gap other than \$2,000
- John earmarked another \$100,000 in market-based income assets
 - This creates about \$7,000 of new income annually without having to cash out any positions and allows him to re-invest about \$5,000 a year
 - » To help with future inflation, or
 - » To use as a buffer if interest/dividends fall

GROWTH

- John earmarked \$60,000 of his total assets for LTC in an asset-based plan
 - Gives him an additional \$3,000 a month of LTC protection
 - Leaves him with \$33,000 of SS income, \$30,000 of annuity income (amount doubled because of LTC), and \$36,000 of LTC protection
 - John will make \$99,000 a year if an LTC event occurs without touching any principle of his safety, income, or growth assets
- John now has \$140,000 to do with what he pleases
- He can:
 - Invest it and try to earn returns
 - Increase his income
 - Do whatever he wants knowing he'll be okay no matter what happens



TAXES

John is in the 22% tax bracket and will convert his 401k from traditional to Roth over the next four years



In four years, his entire balance will be tax-free forever

- Because he has no taxable assets, his social security will not be taxed, and he will essentially pay no taxes ever again

SUMMARY



Create a five-step plan for a successful retirement:

- 1. Investments:** A tool to accomplish your goals
- 2. Income:** There is no retirement without it, so find your gap and compile a plan to fill it
- 3. Healthcare:** Have an intelligent conversation, whether you ultimately purchase insurance/LTC or not
- 4. Taxes:** Laws change – do your research to ensure your money is taxed at the lowest possible rate
- 5. Legacy:** Ensure your documents are up to date and focus on creating experiences with the people you care about the most

RESOURCES

Book

- *The Laws of Wealth: Psychology and the Secret to Investing Success*
 - Dr. Daniel Crosby, 2016

Websites

- AARP
 - [aarp.org](https://www.aarp.org)
- MyMoney
 - [mymoney.gov](https://www.mymoney.gov)
- The Institute for Financial Education
 - ifeonline.org | ifeonline.org/foh
- USA.Gov
 - [usa.gov/retirement](https://www.usa.gov/retirement)

Online Articles

- Planning for Retirement
 - consumerfinance.gov/consumer-tools/retirement
- Retirement and Financial Resources
 - hr.nih.gov/benefits/retirement/retirement-and-financial-resources
- Top 10 Ways to Prepare for Retirement – Dept. of Labor
 - dol.gov/sites/dolgov/files/ebsa/about-ebsa/our-activities/resource-center/publications/top-10-ways-to-prepare-for-retirement.pdf

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