RECESSION-READY RETIREMENT FOR YOUR FUTURE WELL-BEING

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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

Hybrid assets

- Dividend-paying stocks and mutual funds

Fixed income / interest assets

- Such as the G or F funds in TSP

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
+	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

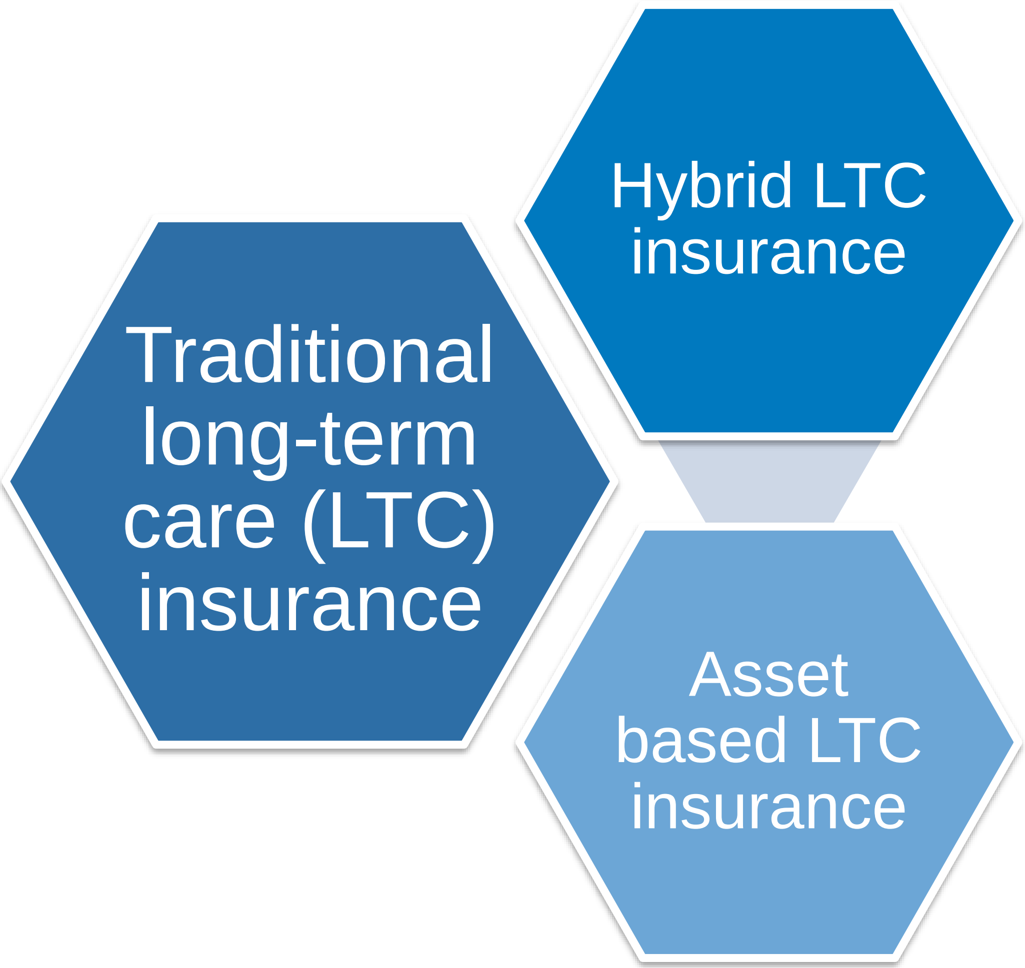
Coverage considerations

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

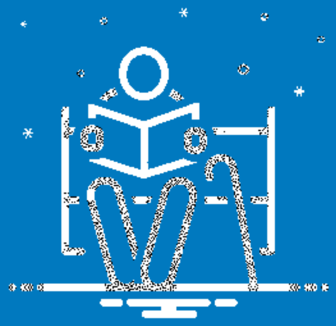
What happens to your estate after you die?

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 $190,000 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

THANK YOU

- For Supplemental Content, please visit:

www.ifeonline.org/plan

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