

Financial Literacy Month

Save & Invest for Your Future Educational Series




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BetterInvesting: Who We Are

Non-profit investor **education** organization; We are not selling anything!



Teaching individual investors since 1951

400+ volunteer educators
40 chapters and 40,000 members nationwide
About 100 clubs in the Puget Sound region




We believe anyone can be a successful long-term investor


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Stop Worrying and Start Living your Retired Life

Making sure you don't run out of money





Gary Ball
Volunteer instructor
gvball@comcast.net



Financial Education Series
Seattle Public Library
May 9, 2020

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1st Poll

- What is your age?
 - Under 40
 - Age 40 to 55
 - Age 56 to 65
 - Over 65

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Two types of IRAs

- Traditional IRA
 - Deductible – get the tax break up front
 - Most beneficial if you are in a higher tax bracket
 - Gains are tax deferred
 - Must take RMD (~4%) at age 72
- Roth IRA
 - Not deductible – no tax break up front
 - Gains are tax free
 - No RMD
 - Absolutely best if future tax rates go up or your income goes up

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Roth Conversions

- Converting means paying tax today on a traditional IRA to convert it to a Roth IRA
- Reasons to convert
 - If you expect your future income to be higher
 - If future tax rates are expected to be higher
- How to convert
 - Pick a year when you are in a low tax bracket
 - Convert enough to bring you to just below the top of the tax bracket (for me, 15%)
 - Pay the taxes from a separate account

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Paying off a mortgage

- Pay off higher interest rate (and non-deductible) debt first
 - Credit cards
 - Personal loans
 - Car loans
- Paying off a \$10,000 5% mortgage is equivalent to receiving a guaranteed 5% return on a \$10,000 investment
- Not having a mortgage in retirement provides a higher cash flow for fun stuff

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2nd Poll

- What is the best age to begin collecting Social Security?
 - 62
 - 67
 - 70

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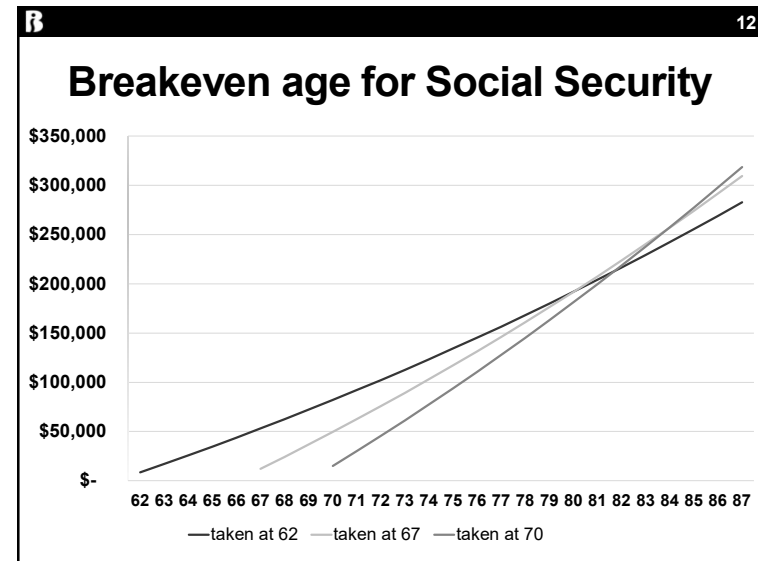
Social Security

- Consider holding off as long as possible


• 62	70%	\$700/mo
• 63	75%	\$750/mo
• 64	80%	\$800/mo
• 65	86.7%	\$867/mo
• 66	93.3%	\$933/mo
• 67	100%	\$1,000/mo
• 68	108%	\$1,080/mo
• 69	116%	\$1,160/mo
• 70	124%	\$1,240/mo

For people born 1960 or later – Full Retirement Age is 67
Dollar value is not for any particular person

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Divesting during Retirement

Making sure you don't run out of money in retirement

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Establishing the Retirement Plan

- How much will you need for spending during retirement?
- How much do you need to save before retirement?
- What will be the rate of inflation before and after retirement?
- What will be your investment rate of return?
- How long are you going to live?
- The retirement spending plan

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3rd Poll

- What age do you expect to live to?
 - Less than 70
 - 71 – 80
 - 81 – 90
 - Over 90

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Average Life Expectancy

Current Age	Life Expectancy	Current Age	Life Expectancy	Current Age	Life Expectancy	Current Age	Life Expectancy
51	81	61	83	71	85	81	89
52	81	62	83	72	86	82	90
53	81	63	83	73	86	83	90
54	82	64	83	74	86	84	91
55	82	65	84	75	87	85	92
56	82	66	84	76	87	86	92
57	82	67	84	77	88	87	93
58	82	68	84	78	88	88	93
59	82	69	85	79	88	89	94
60	83	70	85	80	89	90	95

Source: 2007 US Total Population Life Table, National Vital Statistics Report
Life expectancy rounded to the nearest year.

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How much do you need to retire?


- Estimated annual living expenses
 - Example: \$80,000
- Subtract any guaranteed income
 - Social Security benefit: \$29,000
 - Pension benefit: \$11,000
 - Total of guaranteed income: \$40,000
- First-year income needed from investments: **\$40,000**

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How big must your investment nest egg be to retire?

- Multiply the first-year annual income needed from your investments by 25
 - Example: $25 \times \$40,000 = \$1,000,000$



Now you have a reasonable approximation of the total amount of investments needed to fund your retirement. Notice that your withdrawal rate is 4% (1/25).

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Will Your Money Last 30 Years?

Withdrawal Rate	Probability of Portfolio Ending Balance >\$0	Minimum Years to Portfolio Depletion
10%	9.9%	7.3
7%	44.8%	10.4
5%	79.3%	14.8
4%	95%	20
3%	99.6%	27.3

These simulations were run using a Monte Carlo Simulator; All withdrawal amounts are adjusted for inflation to maintain original purchasing power.

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Portfolio Withdrawal Rates

- 3% - 4% is conservative
- 5% may be okay but not for me
- >6% is pretty aggressive (may leave no inheritance and you might run out of money!)

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A Practical Example

Assume \$1,000,000 investment asset base
Assume \$40,000 living expenses are needed from investments

- Stocks
 - Grows about 7-9%
 - Long-term growth comes from this side

- Bonds & Cash
 - Grows about 3-4%
 - You live off this side

How much do we keep in bonds and cash?

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Major Market (S&P 500) Pullbacks Since 1970

Begin Date	End Date	Max Decline (%)	Recovery Time
Oct 2007	Mar 2013	49	5 yrs 5 mos
Aug 2000	Sep 2007	54	7 yrs 1 mo
Aug 1987	Jul 1989	30	1 yr 11 mos
Dec 1972	Jun 1980	52	7 yrs 6 mos
Nov 1968	Nov 1972	35	4 yrs 0 mo

Source: Ibbotson S&P 2015 Yearbook: Market Results for Stocks, Bonds, Bills and Inflation, 1926-2014

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A Practical Retirement Model

\$1,000,000 investment assets

- \$760,000 (earning 7% - 9%)
 - individual stocks, stock mutual funds, ETFs

- \$240,000 (earning 2% - 4%)
 - \$40,000 5-yr CD
 - \$40,000 4-yr CD
 - \$40,000 3-yr CD
 - \$40,000 2-yr CD
 - \$40,000 1-yr CD
 - \$40,000 money market

Note: A portfolio with 75% equity earning 9% and 25% fixed income earning 3% will yield 7%

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Retirement Model Rules

- Each year you will spend the money market fund.
- Each year, the CD's maturity dates will shorten
- If the stock market has a good year.....
 - Sell stocks and buy a new 5-year CD
- If the stock market has a bad year.....
 - Do not sell stocks to buy a CD
 - Wait another year
- You could have 6 bad years before you would be forced to sell stocks

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My First Retirement Model

\$1,000,000 investment assets

<ul style="list-style-type: none"> • \$760,000 • 45% in VTI (Total stock market index fund) • 25% in VEA (Developed markets index fund) • 5% in VWO (Emerging markets index fund) • 25% in VNQ (REIT index fund) 	<ul style="list-style-type: none"> • \$240,000 • \$40,000 5-yr CD • \$40,000 4-yr CD • \$40,000 3-yr CD • \$40,000 2-yr CD • \$40,000 1-yr CD • \$40,000 money market
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My Current Retirement Model

\$1,000,000 investment assets

<ul style="list-style-type: none"> • \$760,000 • 70% in VTI (Total stock market index fund) • 10% in VXF (Extended market index fund) • 20% in VNQ (REIT index fund) 	<ul style="list-style-type: none"> • \$240,000 • \$40,000 5-yr CD • \$40,000 4-yr CD • \$40,000 3-yr CD • \$40,000 2-yr CD • \$40,000 1-yr CD • \$40,000 money market ²⁶
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Immediate Income Annuity

- Plain vanilla annuity
- Lump sum investment makes a pension
- Monthly payout based on age
 - Example: 65 yo male invests \$100,000 and receives \$500/mo for life (6% payout) — quoted in March 2020
- For details
 - ImmediateAnnuities.com
 - IncomeSolutions.com
- Look for companies rated A+ by A.M. Best

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Gifting

- For 2020, the annual exclusion is \$15,000 per person.
- Federal estate tax exclusion is \$11,580,000.

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Tax-advantaged methods for philanthropy

- Give appreciated assets rather than cash
 - Deduction is the FMV of the asset, not the cost
- Consider donor-advised funds
 - Available at Schwab, Fidelity, etc.

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List of Items every estate plan should include

- Will or trust
- Living will/advanced directive
- Durable Power of Attorney
- Beneficiary designations
- Letter of Intent
- Healthcare Power of Attorney
- Guardianship designations

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QUESTIONS?

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Puget Sound Chapter

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- Regular in-person classes on topics such as introduction to investing, the BetterInvesting methodology and using the Stock Selection Guide, basic financial literacy and retirement planning.
- An annual Investors Education Conference, held in November, featuring dozens of classes taught by local and national instructors on a range of investing topics.
- Club visits by our chapter board members to help your club with a variety of topics, including portfolio reviews and club accounting.
- Email and print newsletters highlighting chapter events and sharing investment education ideas.

To learn more, contact the chapter's board at contact@puget.betterinvesting.net or 206-922-0611.

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- www.betterinvesting.org
“Good Actions to Take During the Economic Crisis”
- www.youtube.com/betterinvesting
“Investing in Turbulent Times”




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The screenshot shows a shopping cart interface for Better Investing. The cart contains one item: "INDIVIDUAL CORE DIGITAL MEMBERSHIP - 3 MONTH" with a price of \$19.99. The total price is \$19.99. Below the cart, there is a field for a promotional code "BIC" and a "PROCEED TO CHECKOUT" button.

Description	Product	Serial #	Price	Quantity	Unit	Total Price
INDIVIDUAL CORE DIGITAL MEMBERSHIP - 3 MONTH	1085		\$19.99	1	EA	\$19.99
Sub Total Before Discount:						\$19.99
Enter Promotional Code: <input type="text" value="BIC"/> (optional)						Your Discounted Sub Total: \$0.00

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