

Creating a Secure Retirement

A Workshop for IPERS Members and Spouses

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Disclaimer

The content of this program is presented to expand your understanding of retirement income issues and options. It does not promote any particular retirement income strategies, products or decisions, and should not be used as a substitute for personalized financial advice.

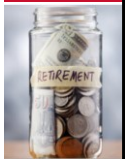
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Workshop Overview

- Retirement Finances: Income and Expenses
- Your IPERS Benefit Options
- Making It Last: Retirement Investment Accounts

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Part 3: Making It Last



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Balancing Retirement Goals

- Safety
- Quality of life (lifestyle)



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Safety First

- Guaranteed lifetime income
 - Social Security
 - IPERS or other defined-benefit pensions
 - Secure rental income

What if your guaranteed lifetime income isn't enough to meet needs?

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Find a Lifetime Guarantee

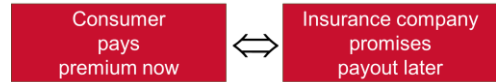
- Income Annuities



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Income Annuity Basics

Contract with a life insurance company



- Opposite of life insurance
 - Life insurance pays on death
 - Annuity pays only while the annuitant is alive

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Income Annuity

Invested
\$160,000



Guaranteed
\$913/month
for life

What do you think?

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Single Life Annuity

Advantages

- Steady, predictable income
- Lifelong – you can't outlive your money
- Prevents you from spending it all early (dissipation risk)

Disadvantages

- Total return depends on how long you live
- Inflation
- No extra benefit if economy does well
- No flexibility
- Fees for guarantee and administration
- Reduces the estate

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Annuity Options

- Payout Options
 - Single or Joint Life
 - Life with Period Certain
 - Period Certain
- Riders
 - Inflation
 - Death/survivor benefit
 - Others
- Annuity Type
 - Fixed
 - Variable and variations
- Start Date
 - Immediate
 - Deferred

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Consumer Tip

Life insurance company ratings:

Standard & Poor's: www.standardandpoors.com

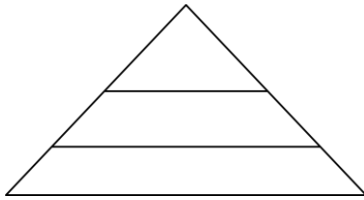
A.M. Best: www.ambest.com

Moody's: www.moodys.com

Weiss Ratings: www.weissratings.com

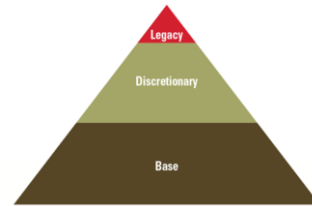
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Safety First Approach



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Safety First: Structure



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Safety First: Inflation

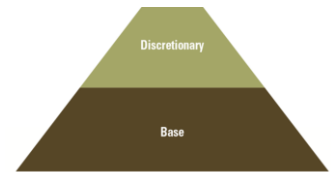
- Enough guaranteed income to support you
 - Life-long income, safe, stable
 - Includes Social Security, defined benefit pension, annuities
- Susceptible to inflation



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Discretionary Income

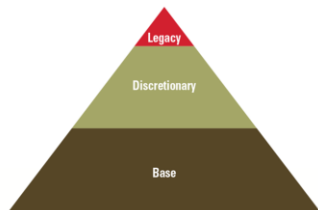
- Used for "extras"
- Withdraw flexibly
- May be invested more aggressively



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Legacy Funds

- Intended for heirs or charity
- Can invest aggressively
- Appreciated assets



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Carmen

- Retiring at 64
- Social Security + IPERS = not enough base
- \$300,000 401(k) account
- Annuity:
 - \$200,000 \Rightarrow \$940/month = Enough
 - \$100,000 in 401k for discretionary

What do you think?



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Stretch Break



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Alternative: Stay Invested

Could Carmen:

- Leave the 401(k) invested
 - Draw enough money from it every year
 - Have it last her lifetime?
- Yes! With 90-95% likelihood it lasts 30 yrs**
- 4% Rule



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4% Withdrawal

- Year One
 - $\$300,000 \times 4\% = \$12,000$
 - \$1,000 per month
- Year Two
 - 3% inflation adjustment = \$12,360
 - \$1,030 per month

Probability of lasting 30 years: 90-95%
IF invested 50/50 in stocks and bonds

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About the 4% Rule

- 4% is the starting point – could go higher
- Requires monitoring
- Based on real data from 1926-2008
- Uncertainty: Will the future mirror the past?
- Some recommend lower withdrawal rate or RMDs instead

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Safe Withdrawal Rate

4%
or
RMD



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Consideration: Timing

S&P 500 Index



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Timing: Two Retirees

- Same portfolio
- Same 30-year average return
- Both: economic ups and downs
- Different timing



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Consideration: Timing

S&P 500 Index



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Volatility Is Normal

- Volatility – ups and downs
- Long-term growth
- Regular downturns followed by recovery

Values down? It's only a **LOSS**
if you need to sell.



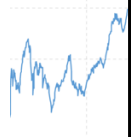
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Sequence of Returns Risk

- Long-term growth
- Regular downturns followed by recovery
- Timing \Rightarrow Sequence

Stay invested \Rightarrow Expect a downturn

Good news. You can be ready!



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Cushioning Economic Downturns

- Reserve Fund
 - Funds for 7-10 years; invested in stable instruments
 - Draw from reserve in downturns
 - Invest balance in stocks – withdraw these in normal years

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Cushioning Economic Downturns

Bucket Strategy



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Staying Invested: Is it for you?

Ask yourself:

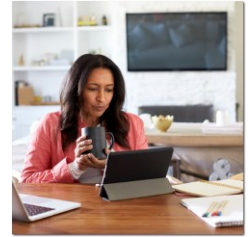
- Total investments
- What would be 4%?
- 4% rule assumptions:
 - 30 years
 - 50/50 stocks/bonds
 - How does that fit?
- What would be your RMD?



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Carmen's Options

- Social Security and IPERS not enough for base
- \$300,000 in 401(k)
- Safety first: use \$200,000 for an annuity → \$940/mo for life
 - (\$100,000 remains for flexibility)
- Stay invested: draw ~\$12,000/yr
 - Adjusts for inflation; cushion downturns



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What Do You Think?



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Two Approaches

Safety First

- Very high security ✓
- Little/no growth
- Inflation losses
- Easier to manage ✓
- Less flexibility
- No overspending risk ✓
- Annuity drawbacks

Stay Invested

- Moderate security
- Potential growth ✓
- Inflation: keeps up ✓
- More to manage
- Greater flexibility ✓
- Dissipation risk
- No annuities ✓

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Shifting Asset Allocation

(Stocks / Bonds / Cash)

- Adjustment may be needed
 - Reserve fund?
 - Annuity purchase?
 - Diversification for RMD
 - General restructuring
 - Recommend gradual shift (start early)



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Income Tax Considerations

Three types of retirement investments:

- Taxable
- Tax Deferred
- Roth



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Creating a Secure Retirement - Part 3

Tax-efficient Withdrawals

Generally recommended order:

- Taxable accounts
- Tax-deferred accounts
- Roth IRA accounts

**Exceptions are merited

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Choose Financial Advisers

- Seek names
- Call for information
- Check references
- Visit face-to-face
- Consider and decide

Consideration:
Fiduciary Responsibility vs. Suitability Standard

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Keep Learning

- www.investor.gov/employment-retirement
- www.finra.org

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3 – 2 – 1 Lift Off!

- Write:
 - 3 things you will definitely remember
 - 2 things you will definitely do
 - 1 thing to learn more about
- Evaluation

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