

Andover Mentors

Financial Challenges In Retirement



Don Schroeder

Roland Jacobson

Jeff Kaplan



Andover Mentors

Disclaimer

The information provided herein are the opinions of the presenters. It's **educational only** and does not constitute investment advice nor does it constitute an offer to buy or sell shares or units in any of the investment funds or other financial instruments described herein. In addition, the information provided herein is not an offer to provide financial or wealth management services.

This information should not be used as a substitute for suitable investment and product-related advice which is available from a professional financial advisor.

The acquisition of a capital investment is associated with risks. Financial instruments described herein may be subject to considerable fluctuations in value. In particular, investment funds with high volatility may be subject to strong fluctuations in value.

The value of an investment can therefore decrease abruptly to a considerable extent. Therefore, there is a risk that you may not recover any of or the full amount invested.. To the extent that the information herein is based on forecasts, estimates and assumptions regarding the economic future, it cannot be ruled out that the forecasts, estimates and assumptions made are incorrect or incomplete. In addition, the more the forecast event or result lies in the future, the less reliable the forecast.

Past performance is no guarantee of future results.

Financial Challenges In Retirement

Retiring presents many opportunities for seniors to enjoy the fruits of their labor.

Getting there includes planning and answering a number of questions.

These are explored in three areas.

- ❖ Planning and Budgets**
- ❖ Investing and Savings**
- ❖ What can go wrong**



"I've crunched the numbers in your retirement account. It's time to figure out who will be wearing the mask and who will be driving the getaway car."

Financial Challenges In Retirement Planning: Where to Live

- **Continue to stay in your home**
- **Down size to smaller home or condominium**
- **Move to a smaller apartment**
- **Move to active adult or +55 community**
- **Consider Continuing Care Retirement Communities-CCRC's**
- **Move to a warmer climate.**
- **Relocate to be close to children and grandchildren**
- **Relocate to be close to friends. South in the winter, back to the neighborhood in Summer**
- **Move in with the kids.**

Financial Challenges In Retirement

Test the Waters Before you Jump

- **Try renting in the area where you think you might want to live before you decide to sell your home and move there.**
- **Once you sell it is hard to get back what you had. Value of real estate changes at different rates depending of the region.**
- **Visit prospective areas at different times of the year.**
- **Children decide to move.**
- **Grandchildren grow up, become independent and may move on.**
- **Talk to others about what they experienced in making a change.**

Financial Challenges In Retirement

Budgeting

Having a plan and working out a budget is extremely important in addressing financial challenges of seniors.

Half (52%) of all senior couples count on Social Security for 50% of their income

47% of unmarried seniors count on Social Security for at least 90% of their income

Retirees will need on average 70% to 100% of their preretirement income

Financial Challenges In Retirement Budgeting

1. Gather Financial Paperwork

- W-2s and paystubs
- 1099s
- Investment accounts
- Bank statements
- Recent utility bills
- Credit card statements
- Receipts from the last three months
- Mortgage or auto loan statements

2. Calculate Your Income

Financial Challenges In Retirement Budgeting

3. Create a List of Monthly Expenses

Essential Expenses

Mortgage or Rent
Condo/HOA fees
Real estate taxes
Groceries
Personal Care
Utilities (Telephone/Cable/Internet)
Insurance (Medical/Home/Auto)
Transportation costs
Credit Card Debt
Other

Discretionary Expenses

Entertainment
Club Memberships
Travel / Vacations
Eating out
Family Care

New Car Savings
Loans
Other

What Are Your Trade-offs?

Financial Challenges In Retirement Budgeting

4. Unexpected Costs

Home – Look at what might need to be repaired or replaced within the next five years.

Condominium – Consider the possibility of special assessments.

Rising real estate taxes

Increases in health care cost.

5. Total Your Monthly Income and Expenses

6. Make Adjustments to Expenses

If income is less than expenses cuts will need to be made to expenses.

Financial Challenges In Retirement

Making Ends Meet

- Cutting expenses is easier than increasing income
- Get a part time job to increase income
- Downsize home to cut expenses and realize gains in the market value of your home
- Move to a less expensive area
- Refinance mortgage

Financial Challenges In Retirement Planning – Dealing with Debt

Refinance you home with interest at record lows. 50% of seniors over 62 still had a mortgage payment in 2010.

2/21/21 Mortgage rates published in the Boston Globe and from the internet.

	30 yr. Rate	Points	Fees	15 yr. Rate
Mass Small Bank's	2.88% to 2.92%	0	\$208 \$760	2.5% to 2.63%
Mortgage Co.'s	2.79% to 2.89%	0	\$595 \$595	2.25% to 2.63
Online	2.88% to 3%		\$1 \$1,088	2.37% to 2.5%

Reduced or paid-off debt will have a big effect on monthly expenses

Financial Challenges In Retirement

Saving and Investing

In a Low Interest Rate Environment



Have Two Basic Accounts

- Retirement Account (Tax-Deferred or Taxable)
 - Generate income.
 - Maximize return with reasonable risk
 - Avoid the Big Loss (Preserve Capital)
- A Savings (Cash Reserves) Account
- How to Mix Assets (Cash, Bonds, Stocks)

Financial Challenges In Retirement

Saving versus Investing

Short-Term versus Long-Term

- **Savings (Cash Reserves) Account**
Returns can be increased through conservative “investing”.
 - **Income:** 100% Fixed Income, **1 to 2-year Maturities**
- **Retirement Investments – Expecting Income & Capital Gain**
 - **Conservative:** 30% Stocks/70% Fixed Income, **2 to 5-year horizon**
 - **Balanced:** 50% Stocks/50% Fixed Income, **5-year horizon**
 - **Moderate Growth:** 70% Stocks/30% Fixed Income, **10-year horizon**
 - **Aggressive:** 85% Stocks/15% Fixed Income, **15-year horizon**

Notes:

Fixed Income includes Money Market Funds, CDs and Bond or Bond Funds

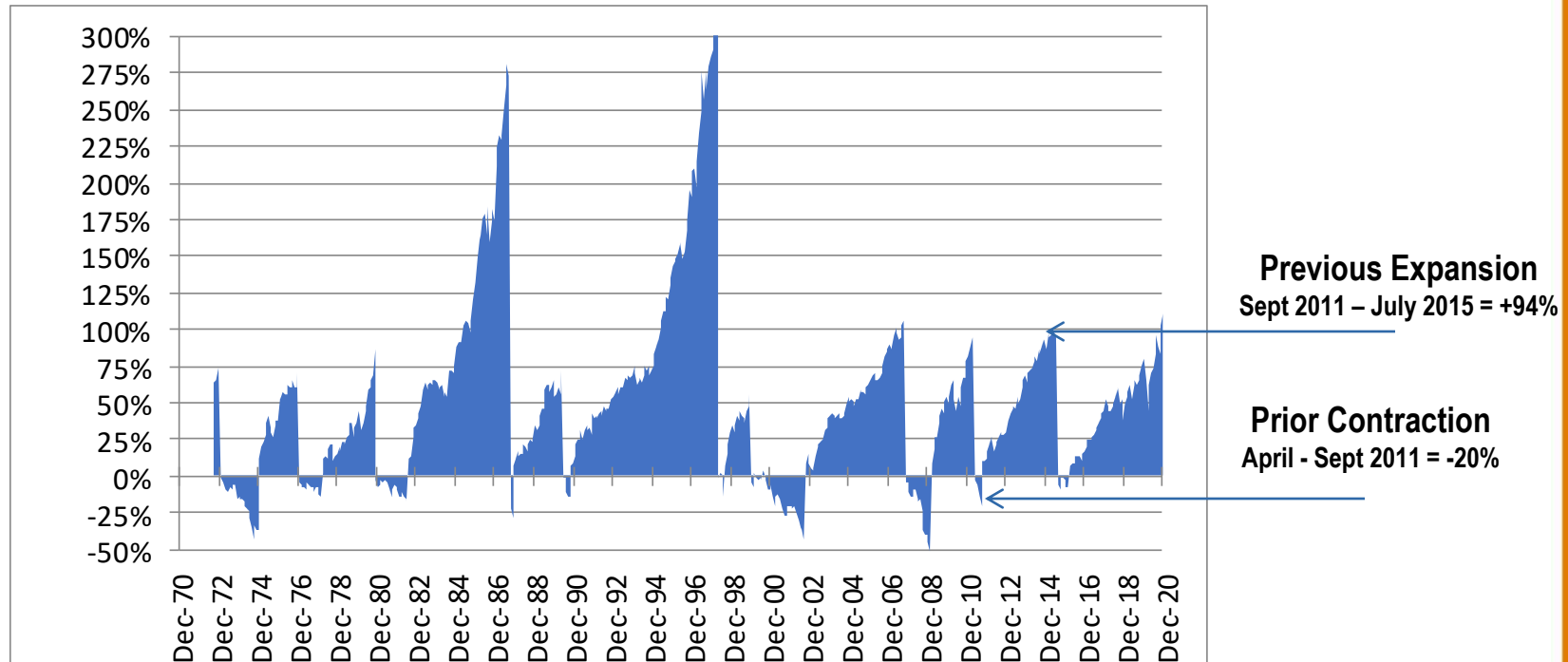
Stocks include individual securities, mutual funds or Exchange Traded Funds

Financial Challenges In Retirement

Accept that the Stock Market is Volatile

But it is Positive more than Negative

S&P 500® Contraction and Expansion Periods



Down-Market Contraction Periods:

Average Length = 12 Months

Median Performance = -14%

Expansion Periods:

Average Length = 38 Months

Median Performance = +82%

Source: Standard & Poor's as of 12/31/2020

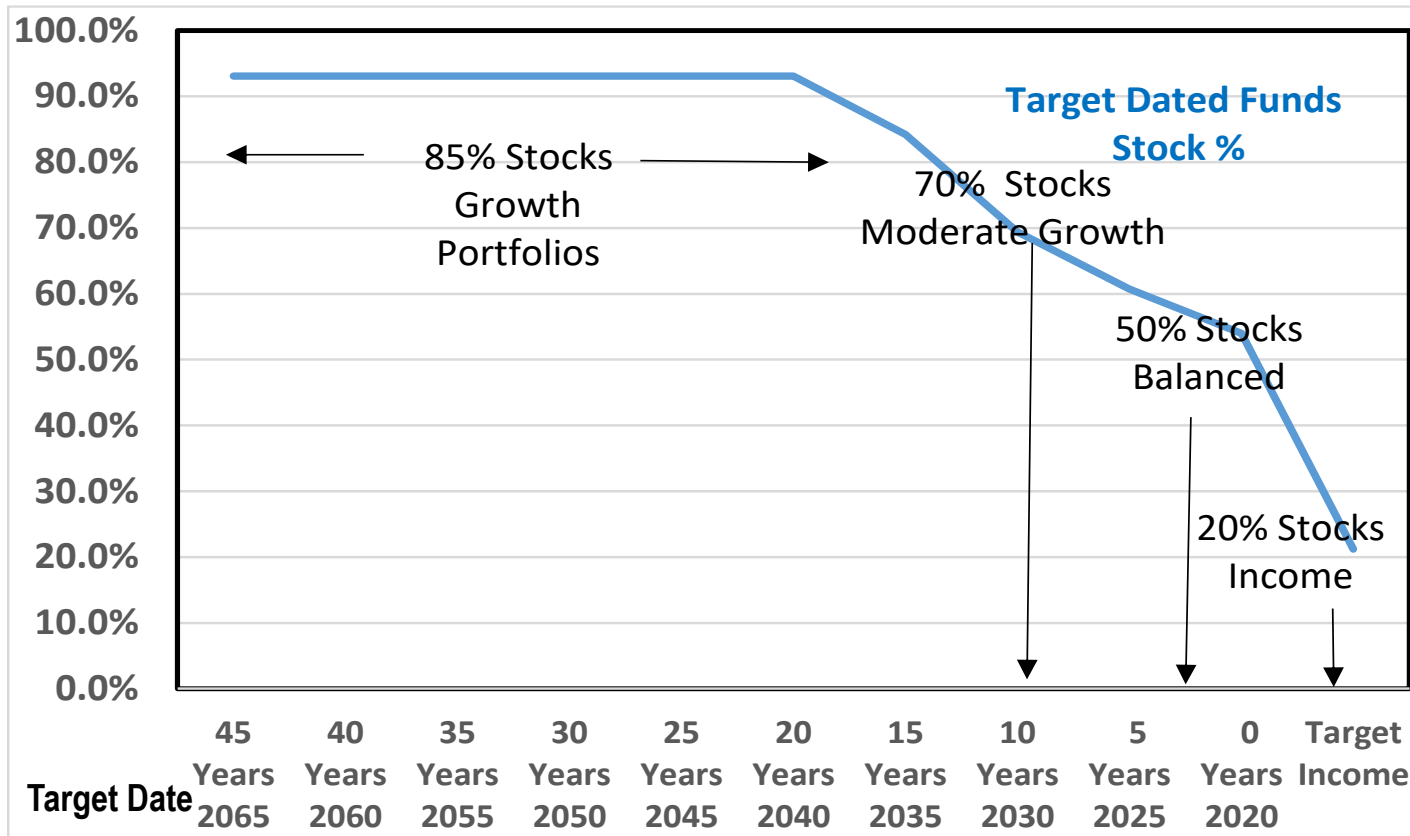
Stock prices tend to move in direction of anticipated earnings changes.

Bond prices tend to move in the opposite direction of stock prices during economic stress. 16

Financial Challenges In Retirement

Simple Investing

Target-Dated Funds versus Target Allocation Funds



Good in tax-deferred accounts since the investor can invest and forget it since the Investment Company will constantly rebalance the allocation.

Financial Challenges In Retirement

Target Allocation Portfolios

Asset Mix	Rate of Return Avg. Annual 2006-2020	Allocations				
		Growth 10+ years	Moderate 5-10 Years	Balanced 2-5 years	Conservative < 2 years	Income 1-2 year
Treasury Bills / Money Mkts	1.1%	5%	5%	10%	30%	70%
Bonds / Bond Funds	4.2%	10%	25%	40%	40%	30%
Stocks / Stock Funds	8.5%	85%	70%	50%	20%	0%
Annualized Returns+ 2006-2020						
15-Year Annualized Income (2006-2020)		1.7%	1.8%	2.1%	1.9%	1.6%
15-Year Capital Gain (2006-2020)		6.1%	5.4%	4.2%	2.6%	0.4%
15-Year Annualized Return (2006-2020)		7.8%	7.2%	6.3%	4.5%	2.0%
15-Year Avg Bear Market (2006-2020)		-21.4%	-16.2%	-9.5%	-3.9%	-1.6%
2008 Market Correction		-30.7%	-23.4%	-13.7%	-4.5%	+5.1%*

* Bonds returned 13% in 2008

* Stocks down -37% in 2008

As of 12/31/2020 computed using 1981-2020 data from Stocks, Bonds, Bills and Inflation 2020 Yearbook, Ibbotson Associates, Chicago.

Past performance is no guarantee of future results.

Financial Challenges In Retirement

Structuring Fixed Income Assets

“Laddering” Fixed Income Securities Across Different Maturities

















Laddering CD's and bonds with varying maturities can provide a source of predictable income.

“Ladders” may help during falling interest rates by diversifying interest rate risk.

“Ladders” may help during rising interest rates by freeing up money for future higher-rate securities.

US Treasury Rates	Inflation	3 Month	6 Month	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year
Dec-19	2.10%	1.55%	1.60%	1.59%	1.58%	1.62%	1.69%	1.82%	1.92%
Dec-20	1.36%	0.09%	0.09%	0.08%	0.11%	0.18%	0.45%	0.79%	1.12%

Source: USTreasury.com

CD Rates	6 Month	1 Year	2 Year	3 Year	5 Year	Deposit
National Banch Bank		0.10%	0.10%	0.10%	0.15%	
Mass Branch Bank		0.15%	0.25%	0.35%	0.50%	
Smaller Savings Bank	 0.25% 	 0.50% 	 0.75% 	 0.75% 	1.00%	\$500
Small Local Bank*	 0.40% 	 0.60% 	 0.75% 	 0.65% 	0.65%	\$1,000

*Higher rates with over \$250,000

FDIC insurance covers deposit up to \$250,000 (Individuals should review with their financial institution the amount they are insured for joint or other types of accounts.

All rates subject to change.

Financial Challenges In Retirement

Wrap-Up

Overwhelmed?

Consider engaging the services of an Registered Investment Advisor (RIA) or the Advisory Service offerings of your mutual fund provider. However, be aware that the mutual fund provider will charge an Advisory Fee on top of the annual mutual fund expenses, adding approximately another 0.4% per year.

Many RIA's use only structured products such as mutual funds or exchange traded funds (ETFs). Or, if they provide separately managed accounts like my IRA, there may be a minimum account value under which they will use only structured products. The cost of such advisory services will range between 1.0% - 1.5% per year, an amount which will reduce your expected return.

Questions?

FINANCIAL CHALLENGES IN RETIREMENT

What can go wrong?

Jeff Kaplan
Andover Mentors
2021

FINANCIAL CHALLENGES IN RETIREMENT

You Need A Plan for That!

An Important Definition for Your Plan

Asset Allocation: An investment strategy that has the goal of balancing risk and reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame.

FINANCIAL CHALLENGES IN RETIREMENT

LONGEVITY RISK

The chance that your life or spouse's survival rate will exceed expectations.

MITIGATION STRATEGIES: Pension, Annuity

INFLATION RISK

Inflation is an ongoing concern for anyone living on a fixed income.

MITIGATION STRATEGIES: Asset Allocation, Inflation Protected Securities (TIPS: Treasury Inflation-Protected Securities)

INTEREST RATE RISK

Lower interest rates reduce retirement income in savings accounts.

MITIGATION STRATEGIES : Asset Allocation, Bond Ladder

FINANCIAL CHALLENGES IN RETIREMENT

STOCK MARKET RISK

A volatile market can result in losses that can seriously reduce retirement savings and income.

MITIGATION STRATEGIES: Asset Allocation

BUSINESS RISK

Loss of pension plan funds can occur if the employer that sponsors the pension plan goes bankrupt or the insurer that is providing annuities becomes insolvent.

MITIGATION STRATEGIES: Pension Benefit Guarantee, Family Emergency Fund

FINANCIAL CHALLENGES IN RETIREMENT

DEATH OF A SPOUSE

A spouse's death can lead to a reduction in pension benefits or bring additional financial burdens, including lingering medical bills and debts.

MITIGATION STRATEGIES: Life Insurance, Will, Trust

CHANGE IN MARITAL STATUS: Splitting the marital assets will almost certainly lead to an overall loss in standard of living for both parties, especially if their lifestyle had been maintained by pooling income and resources.

MITIGATION STRATEGIES: Prenuptial Agreement

FINANCIAL CHALLENGES IN RETIREMENT

UNEXPECTED MEDICAL EXPENSES

Older people usually have greater healthcare needs and may require frequent treatment for a number of different health-related issues.

MITIGATION STRATEGIES: Medicare, Long Term Care Insurance

CHANGE IN HOUSING NEEDS

Retirees may need to change from living on their own to other forms of housing, such as assisted living or independent living in a retirement community, which combines some assistance with housing.

MITIGATION STRATEGIES: Research options in your area in advance

FINANCIAL CHALLENGES IN RETIREMENT

UNFORSEEN NEEDS OF FAMILY MEMBERS:

- Paying healthcare costs for an elderly parent
- Paying higher-education costs for children or grandchildren
- Providing short-term financial assistance to adult children in the event of unemployment, divorce, or other financial adversities.

MITIGATION STRATEGIES: To be determined

PUBLIC POLICY RISK: Government policies, can impact the financial position of retirees and can change over time. i.e. Changes to Medicare and Social Security.

MITIGATION STRATEGIES: Emergency Fund

FINANCIAL CHALLENGES IN RETIREMENT

BOTTOM LINE:

You Need A Plan for That!

Retirement Planning Assistance

- Online Planning Tools
- Professional Advisor

FINANCIAL CHALLENGES IN RETIREMENT

For More Information

Contact Us

Email:

AndoverSeniorMentors@gmail.com

Disclaimer: This presentation is for informational and educational purposes only and does not constitute an offer to sell, a solicitation to buy, or a recommendation for any security, or as an offer to provide advisory or other services in any jurisdiction in which such offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. Past performance is not indicative of future results. Performance figures are unaudited.

APPENDIX

Concepts for your research and to discuss with a financial advisor are on the following pages.

APPENDIX: Strategic Investing

Diversification of investments across asset classes in order to **maximize potential RETURN** for a given level of **RISK**.

Two levels of Allocation:

- 1 **Asset Allocation:** What percentage should be allocated to each of the major asset classes: **Money Markets, Bonds, and Stocks**?
- 2 **Diversification** within asset classes: How to invest within each asset class, e.g., equities, what portion should be in large cap, small cap, and international?

Asset Allocation Factors to Consider:

- 1 **Time horizon** – How long before you withdraw money?
- 2 **Financial situation** – How “well-off” are you?
- 3 **Risk tolerance** – How much can you afford to lose?

Neither diversification nor asset allocation ensures a profit or guarantees against loss.

APPENDIX: A Successful Approach to Investing

1. Accept that the stock market is volatile
2. Select a neutral **strategic asset allocation** based on your time horizon (when you need the money), risk tolerance and unique circumstances
 - Growth
 - Moderate Growth
 - Balanced
 - Conservative
 - Income
3. **Diversify** the portfolio among asset subclasses, each with a tolerance range
4. Select the better **risk-adjusted securities** or mutual funds.
5. **Rebalance** the portfolio among asset classes if/when outside tolerance ranges
6. Monitor the markets and holdings, which may ultimately trigger **tactical allocation changes**
7. Focus on income and absolute returns!
8. Avoid the crowd mentality



APPENDIX: Stocks and Stock Funds

Ownership Investment Characteristics

PLACE OF ISSUANCE:

Domestic US – 5,000 stocks

Developed Foreign Countries – 4,000 stocks

Emerging Markets – 4,000 stocks

SIZE OF ISSUANCE: (Capitalization = Shares Outstanding * Price)

Large-Cap or Large Companies (Average \$190 Billion)

Mid-Cap or Mid-Size Companies (Average \$12 Billion)

Small-Cap or Small Companies (Average \$3 Billion)

STYLE:

Value (Slower Growth, Smaller Price/Earnings Ratio, Higher Dividend Yield)

Growth (Fast Growers, Larger Price/Earnings Ratio, Lower Dividend Yield)

Blend: A combination of Value and Growth stocks – Think “Index” Funds

Prices tend to move in direction of anticipated earnings changes.

APPENDIX: Debt Investments

Loan (Bonds or Fixed Income) Investment Characteristics

- **PRICE & COUPON:** Most bonds are issued with an original price of \$1,000 a fixed coupon rate and Maturity Date, at which time the initial \$1,000 is promised to be returned.
- **MATURITY & DURATION:** From 45-day Money Market Funds, fixed-term CDs to 30-year Treasuries.
Longer maturities are more volatile and require a greater coupon or risk premium than shorter-term bonds or money-market securities.
- **ISSUER:** US Government & Agencies, States and Municipalities, Corporations, Financial Institutions, Utilities
- **QUALITY RATING:** High Yield BB Bonds that could default require more yield or risk premium than AAA Treasuries which are guaranteed by the government.

During the time between issuance and maturity, prices tend to move inversely with interest rate moves and tend to move in the opposite direction of stocks during periods of economic instability.

Interest rates are generally reduced by the Federal Reserve when the economy is troubled (stock prices falling)

APPENDIX: Bond Fund Behavior

Bull markets occur when security prices rise over time.

Bear markets occur when security prices fall over time.



Bond Prices change by the “Duration” measure for each 1% change in general interest rates.

For example a bond fund with a 5-year duration will lose 5% of its price if general interest rates increase by 1%

APPENDIX: “Laddered” Fixed Income Mutual Funds

One can add mutual funds with longer average maturities having higher yields but also higher risk.

Income Funds	MStar Rating	SEC Yield	12 Mth Income	Avg Coupon	Average Duration	Average Maturity	Average Price	Avg Credit	BB	1 Year	3 Year	5 Year	Std Dev 5 Year
Cash Reserves	-	0.01	0.17	-	-	-	-	AAA	-	0.17	1.20	0.87	0.22
Conservative Income	3	0.12	0.89	1.61	0.37	0.58	100.93	A	0.08	1.02	1.95	1.69	0.89
Short-Term Bond	2	0.34	1.99	2.18	1.91	2.00	103.02	A	1.72	3.17	3.18	2.26	1.35
Intermediate Bond	3	0.62	2.10	2.85	4.05	4.50	106.65	A	2.49	5.26	5.14	3.74	2.73
GNMA	3	0.91	1.55	3.31	0.51	2.70	107.52	AAA	0.00	3.33	3.77	2.47	1.80
US Bond Index	3	1.08	2.05	2.71	5.75	7.60	110.19	AA	0.17	4.88	5.53	3.99	3.22

As of January 31, 2021

Notes:

Current Avg. Price greater than 100%, the Price at Average Maturity and rising as maturities lengthen

1-Year Income is less than the Coupon Rate at issuance due to price dilution and expenses

7-day SEC yield is less than 1-year Income by the anticipated reduction in price as the bonds mature

APPENDIX: Sample Advisor-Managed “Balanced” Portfolio Allocation “Laddered” with Individual Bonds

Bond Ladder -----

Maturity Year	Asset Class	No. of Issues	Portfolio Percent	Yield
2021	Money Mkt	438	11.43%	0.40%
2021	Bonds	4	5.87%	1.50%
2022	Bonds	3	3.27%	2.40%
2023	Bonds	4	4.07%	3.20%
2024	Bonds	2	0.55%	2.35%
2025	Bonds	2	1.63%	2.20%
2026	Bonds	1	3.16%	3.00%
2027	Bonds	2	0.79%	3.38%
2028	Bonds	1	0.83%	5.00%
2029	Bonds	2	0.84%	3.50%
2030	Bonds	2	3.84%	3.42%
None	Bond Fund	3033	5.45%	4.14%
None	Pref Stocks	8	<u>5.97%</u>	<u>4.82%</u>
Total Fixed Income			36.26%	3.26%
	High Div Stks	12	11.85%	3.26%
	Other Stocks	60	40.45%	2.02%
Total Stocks			52.31%	2.30%
Total Portfolio				2.43%

Note

Most individual bonds currently short term – maturing in 2021-2023
Longer-term bonds have greater current yields (levels of income)

Uniform Lifetime (RMD) Table		
Age	Life Time Factor	RMD Percent
70	27.4	3.6%
71	26.5	3.8%
72	25.6	3.9%
73	24.7	4.0%
74	23.8	4.2%
75	22.9	4.4%
76	22.0	4.5%
77	21.2	4.7%
78	20.3	4.9%
79	19.5	5.1%
80	18.7	5.3%
81	17.9	5.6%
82	17.1	5.8%
83	16.3	6.1%
84	15.5	6.5%
85	14.8	6.8%
86	14.1	7.1%
87	13.4	7.5%
88	12.7	7.9%
89	12.0	8.3%
90	11.4	8.8%
91	10.8	9.3%
92	10.2	9.8%
93	9.6	10.4%
94	9.1	11.0%
95	8.6	11.6%

Resources

- Morningstar Research: For mutual fund and ETF analysis*
- Value Line Research: For company and stock research*
- Kiplinger's Retirement Report (inexpensive subscription required)
- www.aarp.org AARP Bulletin
- www.plannersearch.org for a financial planner near you
- www.cfp.net to verify a planner's certification

*** Information on these plus other financial publications can be found at your local library.**