The Retiree's Guide to a Secure and Worry-Free Retirement

Everyone, and I mean everyone, should be keenly aware of the financial risks they will face in retirement. By not planning properly, many retirees could easily outlive their money. By not correctly diversifying your investment portfolio, you could potentially be wiped out by the next severe market decline.

In order to live a carefree retirement, we all must face the realities and dangers the future will bring our way and the problems they will cause us in our golden years. Here's just a few:

1. Taxes

   You tell me – will taxes be higher or lower 5, 10, 20 years down the road? The top federal tax rate in 1913 was 7%. By 1944, it was as high as 94%. *That's insane! Why work? Why save?* I guess we should be grateful that the highest rate is only 37% now!

   According to www.usgovernment.us, the current federal debt is well over 20 trillion dollars! *I can't even think of something witty to say about a number so large.* If every American paid the U.S. Government $50,000 this year, Uncle Sam would still be in debt. To make matters worse, the U.S. national debt has grown by more than a trillion dollars over the last 12 months.

   Who is going to pay the bill? You and I are – in the form of higher taxes!

   Part of your retirement planning should involve sitting down with a financial professional to figure out how you can keep your tax bill as low as possible.

   Prior to 1984, Social Security income was tax-free. Today, however, taxpayers pay taxes on up to 85% of Social Security income! The IRS calculates the tax on Social Security income based on total income from almost all sources. There are, however, a few financial vehicles left that allow you to defer taxes. By deferring taxes, you may be able to shelter enough income to lower the taxes on your Social Security check. *It's worth looking into; a double tax savings strategy sounds really good to me.*

   Honestly, retirement planning shouldn't have to be difficult and complex, but it is. What an irony – retirement planning is actually hard work. All the risks we now face are frightening. I remember observing "older people" when I was a child. Retirement planning was so much easier back then. You retired at age 65, and you died in the next couple of years because of shorter life expectancies. Not now! We could easily spend 20 or 30 years in retirement. That's why it's critical to have a long-term retirement plan in place.

2. Medical Expenses

   A few years back, I turned 65. *I have to admit – I'm a little giddy about receiving a check from Uncle Sam every month.* I started paying into the Social Security system when I began my first part-time job in 1969. I haven't done the math, but I can safely assume I have paid the government a lot of money over the past 45 years. It's exhilarating to think the Social Security Department is actually going to send me a monthly check!

The other side of the coin – Medicare and health care costs after age 65 can be a killer. The more I look into it, the more frightening the future looks. According to www.ssa.gov, Medicare costs are inflating at roughly 7% per year, while Social Security's cost-of-living adjustments are expected to be only 2% at a maximum for the foreseeable future. So, the longer I live, the more Medicare is going to cost me. At the same time, my Social Security increase will be minuscule. In other words, *What Social Security giveth, Medicare taketh away* – and more! Thanks to our government and politicians, Medicare is now means tested. The more you make, the more you pay. *Sounds a lot like Socialism to me!* Apparently, they want to penalize those of us who tried to plan properly!

Based on my current income, I will have to pay the Medicare Part B premium, plus 220%! For Part D, I will have to pay the premium, plus $66.60/month. *Before you get the wrong idea – I'm not a wealthy guy. Upper middle class, yes. But not wealthy.* Because of my economic status, I will be forced to pay more for Medicare – a lot more.

I figured out that, over the next 20 years, my wife and I will have to pay almost $300,000 for Medicare Part B, Part D, and Part A Medigap policies, plus out-of-pocket health care expenses. That means that health care costs will eat up about half of what I expect to receive from Social Security. When I found out the bad news, I came up with a couple of choice words (which I hesitate to share with you here), but, if you know what a vacuum cleaner does, you'll get the drift.

3. Inflation
   Inflation has been and, in all likelihood, will always be with us. Although inflation has been relatively tame over the past several decades, it can wreak havoc on our retirements funds if we aren't careful.

   Remember the '70s? The average annual inflation rate was 7.06% from1970-1979. Because of compounding the cost of living doubled over that fun loving decade, I paid $300 for my first car in 1970 – a 1963 Corvair. *Frankly, I'm lucky to still be alive!* It was a death trap. My newest car cost twice what we paid for our first home. That's inflation!

   Here is a quick lesson on inflation: In 1960 the minimum wage was $1.25; now it's over $9. A movie ticket cost $1; now it costs more than $8. A gallon of milk was $0.95 vs. nearly $4 today. Going all the way back to 1950, the median family income was about $3,300 per year; now it's $52,000. As you know, the cost of just about everything goes up over time, including a nursing home.

4. A Nursing Home Stay
   According to a MetLife survey, the average cost of a private room in a nursing home exceeds $90,000 per year. A semi-private isn't much cheaper at $222 daily, or more than $81,000 per year. Forty percent of individuals who reach the age of 65 will enter a nursing home during their lifetime. The average length of a nursing home stay is 835 days, and, according the the Center for Disease Control and Prevention, one out of every four of us will die while residing in a nursing home.

I dare say – most of us never planned for living too long or paying $7,000 a month for care in a nursing home.

Several years ago, my grandfather had Alzheimer's disease and ended up in a nursing home. Once you go in a nursing home for Alzheimer's, you don't typically come out. His stay lasted for over five years before he passed away. He ended up losing everything. (FYI – Medicare only pays the first 100 days in a nursing home and only under certain circumstances).

My mother told me it was one of the saddest days of her life when the State came in and auctioned off everything he had left, after spending down all of his investments and savings. My grandfather ended up on Title 19. As you may be aware, you cannot go on Medicaid until you are broke, which is how it ended for my grandfather.

The lack of planning can destroy an entire lifetime of savings in a very short period of time. So can a lack of education. The Bible says: "My people are destroyed for a lack of knowledge." —Hosea 4:6 (KJV)

That's why it's more important to hire a financial professional than try to become one. The tuition for do-it-yourselfers can be quite high!

5. Investment Planning
I have lived through some of the most turbulent times in the stock market. Not only were the swinging '70s known for inflation but also for some very lousy investment returns. According to www.moneychimp.com, the annualized return for the S&P 500 for the decade of the disco crazed '70s was -1.45%, with dividends reinvested. After inflation, $1.00 was worth $0.86 (on 12/31/79) – not good! *I sure hope we don't have to go through another ten-year period like that again. Oops – sorry, we did!*

According to www.investopedia.com, "By most measures, the period from 2000 to 2009 was a true lost decade for most U.S. households, as steep declines in real estate and stock prices resulted in massive wealth erosion." The S&P 500 recorded its worst ever ten-year performance in that decade, with a total return (including dividends) of -9.1%, which was even worse than its performance during the '30s Depression.

Who can forget the stock market crash of 1987? I sure can't – talk about high anxiety! The Dow Jones Industrial Average dropped 508 points, a 22.61% decline on October 19, 1987. *What about September 11? One of the most horrifying days of my life – September 11, 2001.* I lost my neighbors and colleagues that morning in the World Trade Center. Things did not bode well for the markets either. According to Investopedia, the Dow Jones Industrial Average lost 14% the following week. An estimated $1.4 trillion in value was lost in those five days of trading!

The point? It takes time – sometimes lots of time – to recoup your losses in the stock market when something bad happens.

According to MorningStar, the 1929 crash and subsequent downturn lasted almost three years. The recovery took another 151 months. From start to finish, that's 15+ years!

The 9/11 tragedy triggered a market decline that lasted two years and a 47.7% market loss. To make matters worse, it took another 49 months for the market to recover. In total, it took nearly six years to break even.

One of the last major market decline was in November, 2007 through February, 2009. The S&P 500 was down 50.9%. *Ouch!* It took 37 months to recover from that nasty downturn.

Sorry, but I need to add insult to injury here. Think about what would have happened to you if you were taking income from your retirement funds during these sharp declines. Depending on how much you needed to live on made it that much longer for you to recover.

I know many people who have yet to break even from the 2007-2009 meltdown because they needed to take income to pay their bills and make ends meet. Consider this … if your retirement funds were invested in the stock market, and you needed to withdraw $2,000-$3,000 per month to live on, and the market declined by 50%, you'd be forced to sell twice as many shares of stock or mutual funds in order to generate the same income. If the downturn is long enough, your portfolio could implode. *That's scary stuff!*

Remember what Mark Twain said – "There are two times in a man's life when he should not speculate – when he can't afford it and when he can." *I don't know about you, but I can't take much more of this bad news. I'm getting depressed just doing the research and writing this.* That's why diversification is so important.

In Ecclesiastes 11:2 (NIV), Solomon said, *Invest in seven ventures, yes in eight, you do not know what disaster may come upon the land.* Why diversify? Because you are crazy if you don't.

The purpose of diversification is to maximize your return by investing in different asset classes that do not react the same when an event happens. Diversification can be the most important component of reaching your long-term financial goals while, at the same time, minimizing risk.

Why diversify? Because risk can be hidden and is often unquantifiable. One of the biggest risks we face is that of an unknown future event like 9/11 and how such an event might affect our investments.

Imagine owning airline stocks on 9/10/01. Many airlines filed for bankruptcy protection; some went out of business after the horrific events of September 11, those who survived saw their share prices decline by 70-90% in the months following. That's just one reason you should take Solomon's advice and don't put all your eggs in one basket.

Proper diversification helps reduce risk and volatility by investing in multiple asset classes (stocks, bonds, commodities, etc.) that are non-correlated.[*] You can smooth out some of the bumps in the road you're bound to face.

Stocks may be the top performing asset class this year, REITs next year, and fixed index annuities the following year. Because none of us can know the future with any degree of

[*] The price of one asset has little or no effect on the price of another asset class.

certainty, buying multiple (7-8 as Solomon suggests) investments can assure us of having some of our investment dollars in the right place at the right time. With a diversified portfolio that suits your risk tolerance and long-term investment objectives, you may be able to live happily ever after.

And finally, did you ever think that living too long would be a problem? The reality is … Americans are living a lot longer. According to a *USA Today* article published on October 9, 2014: "Life expectancy in the USA hits a record high." The article went on to say that life expectancy for females was 81.2 years; for males, it was 76.4 years. The average life expectancy for a person who was 65 years old was 19.3 years.

With an average retirement age of 62 in the United States, the twin forces of rising life expectancy and falling retirement age will result in a dramatic increase in the number of years the average American will be retired. Which means there may be a strong possibility many seniors could outlive their savings and retirement funds. What to do?

My advice is to put a team of well-seasoned advisors together. At the very least, a middle class retired couple needs a certified public accountant, a financial planner, and an estate planning attorney.

A CPA can help you navigate through the ever-changing, complex tax laws. They can also act as your sounding board when you are considering life changes. I know of several individuals who took early distributions from their IRAs and 401(k)s for what seemed like good reasons, only to end up paying the IRS and state tax collectors as much as 40-50% in penalties and taxes. These folks had no idea of the financial ramifications and ended up nearly destroying their retirement plan. A good financial planner can help put an investment portfolio together that can provide guaranteed income for life with low volatility. They also make good sounding boards when major life-changing events present themselves. Their job is to help you make intelligent, well thought out financial decisions.

The final piece to the puzzle is an estate planning attorney. She can help you to be absolutely sure you have all your legal documents in place, so if something happens to you or your spouse – like a nursing home stay, death, or separation – you won't get bogged down in legal matters.

At the very least, most people need a current, updated will in the state they reside in and a healthcare directive in case they are no longer legally capable of making decisions. This will ensure that your end-of-life wishes are carried out. A power of attorney document comes in handy if you or a spouse becomes chronically ill and are no longer competent to make legal decisions.

A qualified team of trained professionals can collectively help you to be sure your financial house is in order.

Let's Sum it Up

What's keeping you up at night? Fear of losing money? Fear of outliving your retirement savings? Fear of a prolonged nursing home stay? Fear of increasing healthcare costs and taxes?

Do you want a secure income stream, guaranteed to last for your lifetime? How about the ability to grow your money without market risk, fees, or commissions? Wouldn't it be nice to pass your money on to your loved ones without the delay, hassle, and expense of probate? Does lowering the taxes on your income, savings, and social security interest you? Do you want to improve your current financial condition, eliminate market volatility, and remove the pain of market losses?

If so, put a team of professionals together. They can help you stay the course and focus on long-term goals. They can help you successfully maneuver through life's challenges.

Think of it this way: My wife and I love to travel. We have been just about everywhere on planet Earth, including the North Pole. How wise would I be if I took off for 90° north without a guide? I doubt I would be writing this. Whenever we travel to a foreign country, we take a guided tour or hire our own tour guide ahead of time. It makes our vacation easier to navigate and far less stressful. I would submit to you that hiring a professional would give you the same gratification.

A mountain climber who disclaims the aid of a guide can expect
no other epitaph than that he deserves. The penalty of extreme folly!
—Arthur Crump

So, there you have it. If you want a secure, worry-free retirement, seek qualified professional counsel and enjoy the rest of your life.

Feel free to share our website, GreatInvestor.org with your friends and family, so they can learn how to be a great investor. Please like us on Facebook.

Blessings!

Richard Everett

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