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Class 2: Income Planning & Income Sources

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Roadmap to Retirement

you Are Here

Class Agenda

- Retirement Income Planning
- Know Your Cash Flow
- Guaranteed Income Sources
  - Social Security
  - Defined Benefit Plans
  - Annuities
  - HECM

Her Retirement®

I'm going to ask you to step out of your comfort zone and try on some new ideas, that you may not have heard before.

I'm going to ask you to open your mind, give it an honest shot, promise to take action and...

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Women + Money = _____.

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Write this down:

The Right Financial Plan is Also More than a 401k or an Investment Strategy.

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It's a Collection of Some Little Known Strategies, I call H.E.R.O.S.™

Her Efficient Retirement Optimized Strategies (based on science, math & research)

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Personal Pension & Protection Plan®

- ✓ Safe savings/spending strategy for lifestyle and emergencies
- ✓ Income plan & distribution > income for life
- ✓ Social Security strategy to maximize your benefit (and any impact from IRMAA Medicare premiums)
- ✓ Investment strategy > transition portfolio to balance growth and guarantees, minimize risks
- ✓ Tax strategy to pay as little taxes as possible.
- ✓ Home equity strategy for income buffer or emergency fund.
- ✓ Protect against what-ifs > healthcare/Medicare, long care and death

Implementing these strategies could add 5-15 years of life to your portfolio without adding anything to it.

Quick Video About H.E.R.O.S.

https://youtu.be/T0E-bpwLuqU

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These strategies challenge the "traditional" approaches to financial planning and offer some non-traditional, yet very effective ways to create an EFFICIENT & SUSTAINABLE income distribution & protection plan for retirement.

You may also be able to double your retirement income by implementing these strategies

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The Number One Goal of Retirement
(besides health & happiness)…

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…to Make Sure Your Money Lasts as Long as You Do

(while living your desired lifestyle)

The oldest person ever whose age has been verified is Jeanne Calment (1875–1997) of France, who died at the age of 122 years.

Source: REUTERS

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To do this, you may need...

an attitude adjustment (behavior change)
and/or a good income plan.

You Must Have a Retirement Income Plan

(and projection)

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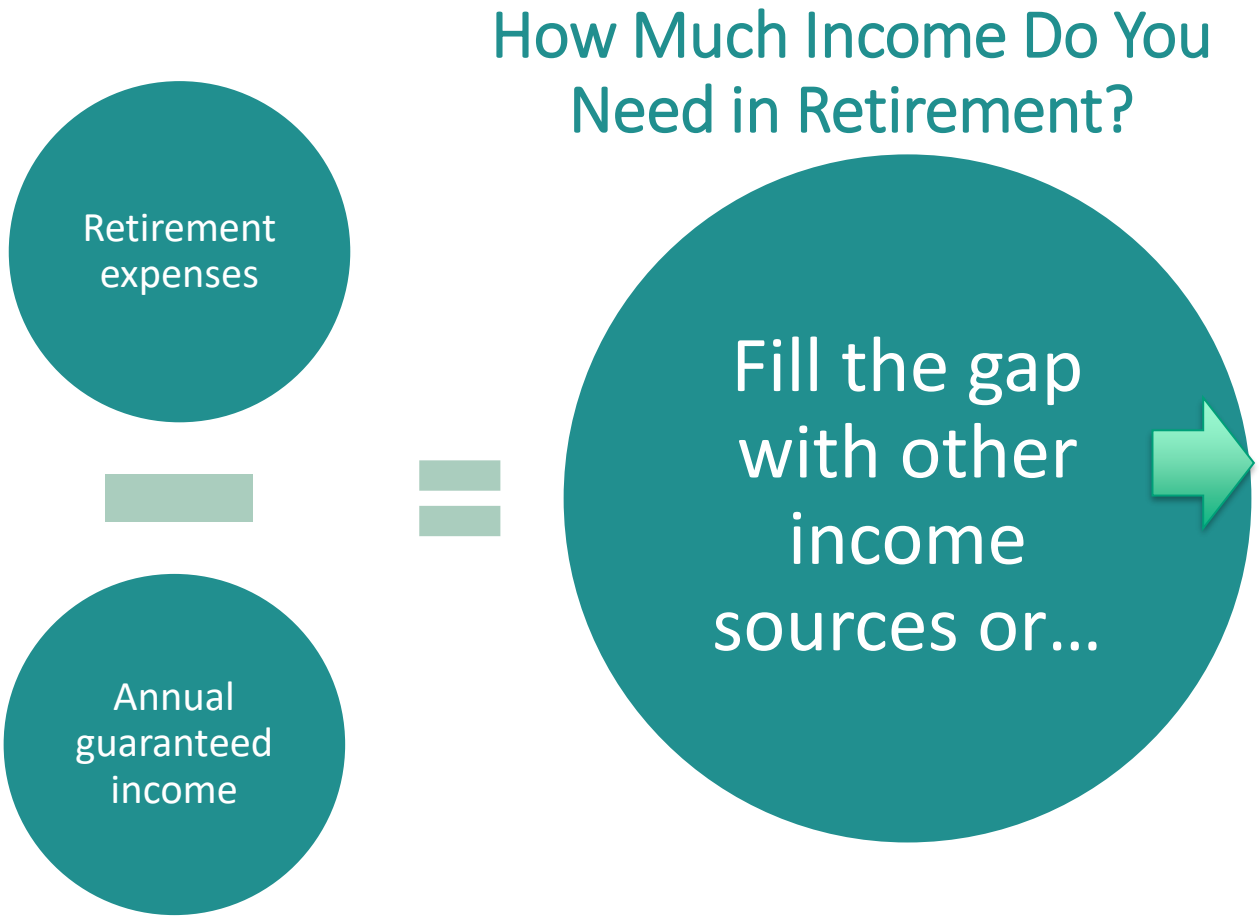
Note to Self:

It's Your Income, Not Your Assets that Determines Your Standard of Living in Retirement.

Retirement Income Planning

- Step 1: Calculate Your Expense Budget
- Step 2: Calculate Your Guaranteed Income Sources
- Step 3: Determine Any Gap



Retirement Income Planning

- Step 4: Create an income from your savings and investments
- Step 5: See the impact of H.E.R.O.S.
  (eliminate need to work etc., have more to live on, leave more to loved ones)

Fill the gap by creating a retirement paycheck from your savings & investments

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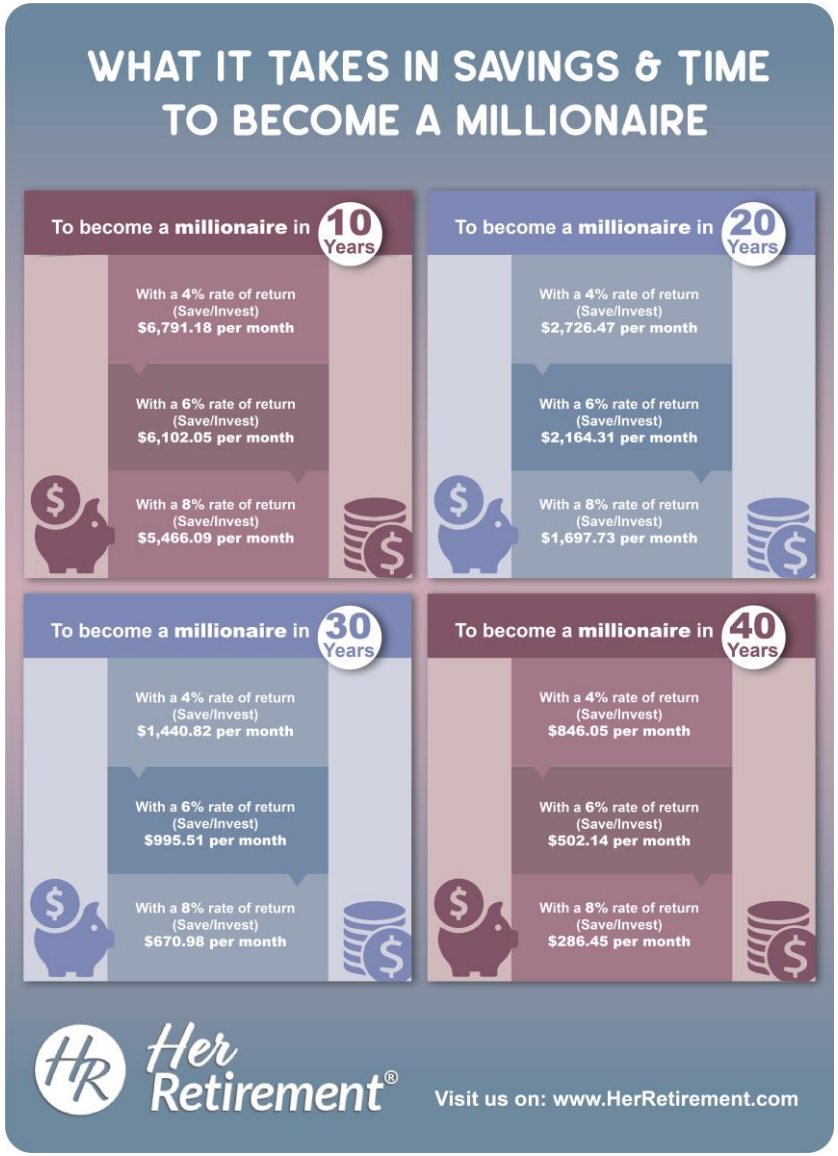

Learn how to create a retirement income from your savings & investments

To cover a gap, to live more comfortably, or to leave more to your heirs

Create Your Retirement Budget

- Create your retirement budget.
- A retirement budget is an estimate of your future expenses.
- Serves as a roadmap for your savings and your strategy.
- Nearly 60 percent of Americans don't use a budget.*

*https://money.cnn.com/2016/10/24/pf/financial-mistake-budget/index.html

Project Sources of Income & Expenses

"I've found another $75,000 under this cushion."

- General guidelines (e.g., you'll need 60% to 90% of pre-retirement income) are easy but not always helpful
- Think about what expenses will change (e.g., mortgage may decrease, health-care costs may increase)
- Include costs for special retirement pursuits (e.g., travel, hobbies)
- List your expenses

Account for all Your Potential Expenses

Fixed Expenses – The bills you have to pay.

- Mortgage
- Credit card payments
- Utilities
- Food

Discretionary Expenses – The “fun” expenses.

- Dining out
- Shopping
- Travel

Add these expenses together to get an estimate of your total monthly and annual spending (i.e. your budget).

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How Will You Spend Your Retirement Budget?

Here's how older Americans today spend their money.

	Ages 50-64	Ages 65-74	Ages 75-84	Ages 85+
Housing	47%	46%	44%	48%
Food	13%	12%	13%	14%
Health	8%	10%	11%	13%
Clothing	4%	3%	4%	3%
Transportation	14%	12%	11%	7%
Entertainment	10%	11%	9%	6%
Other	5%	6%	8%	9%

Source: Based on estimates from Consumption Activities and Mail Survey (CAMS) in Employee Benefit Research Institute (EBRI) Notes, September 2015.

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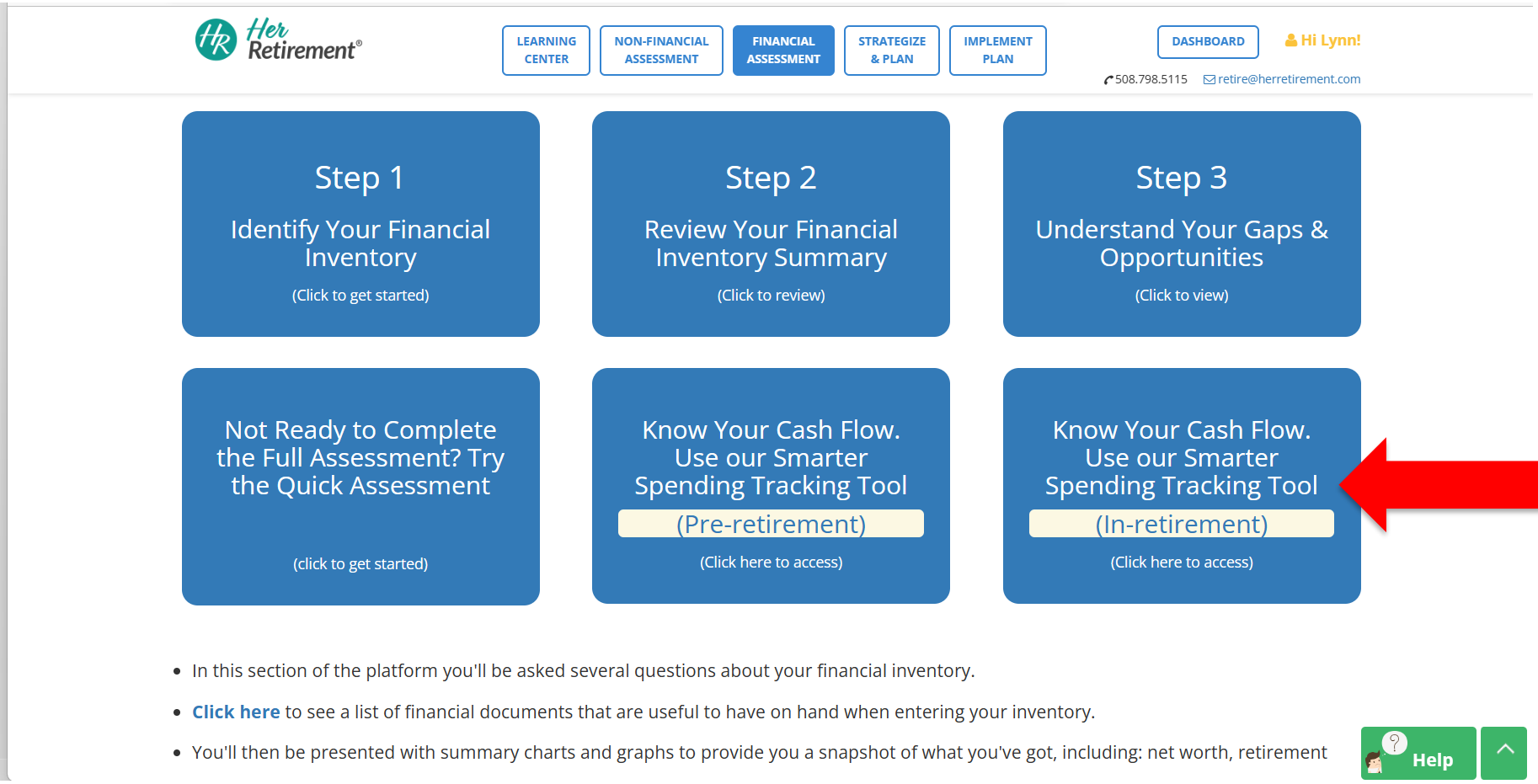

- In this section of the platform you'll be asked several questions about your financial inventory.
- **Click here** to see a list of financial documents that are useful to have on hand when entering your inventory.
- You'll then be presented with summary charts and graphs to provide you a snapshot of what you've got, including: net worth, retirement

Help

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YOUR INCOME DETAILS (In-retirement) (click to enter details)

Enter your household gross income amount. You'll enter your taxes in the expense details

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	%
Income 1														
Income 2														
Extra Income														
Total Income														

YOUR EXPENSE DETAILS (In-retirement) (click to enter details)

The percentages listed are recommended budget allocations, but vary by individual/family

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Cost %
HOUSING 25% to 35%														
Mortgage/Rent (Main House)														
Rental Property														
Vacation House														
Other														
UTILITIES 5 to 10%														
Phone														
Electricity														

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You Need More Than a Simple Retirement Calculation

Annual income desired and the amount of savings needed to produce that income based on number of years you have to live					
Years to live	$30,000	$40,000	$50,000	$75,000	$100,000
30	$612,032.35	$816,043.14	$1,020,053.92	$1,530,080.89	$2,040,107.85
25	$542,881.77	$723,842.36	$904,802.94	$1,357,204.42	$1,809,605.89
20	$463,056.74	$617,408.98	$771,761.23	$1,157,641.85	$1,543,522.46
15	$370,909.51	$494,546.01	$618,182.52	$927,273.77	$1,236,365.03
10	$264,537.96	$352,717.28	$440,896.60	$661,344.90	$881,793.20
5	$141,746.35	$188,995.14	$236,243.92	$354,365.88	$472,487.84

Calculation Assumptions: 6% annual yield based on a generic investment (other income sources are not included), 3% inflation rate, principal is $0 at end of life.

Each investor's results will vary from these shown as investing involves risk, fluctuating returns and the possibility of loss.

Guaranteed Income Sources

- Social Security Income
- Defined Benefit Pension Income

Ways to create guaranteed income:

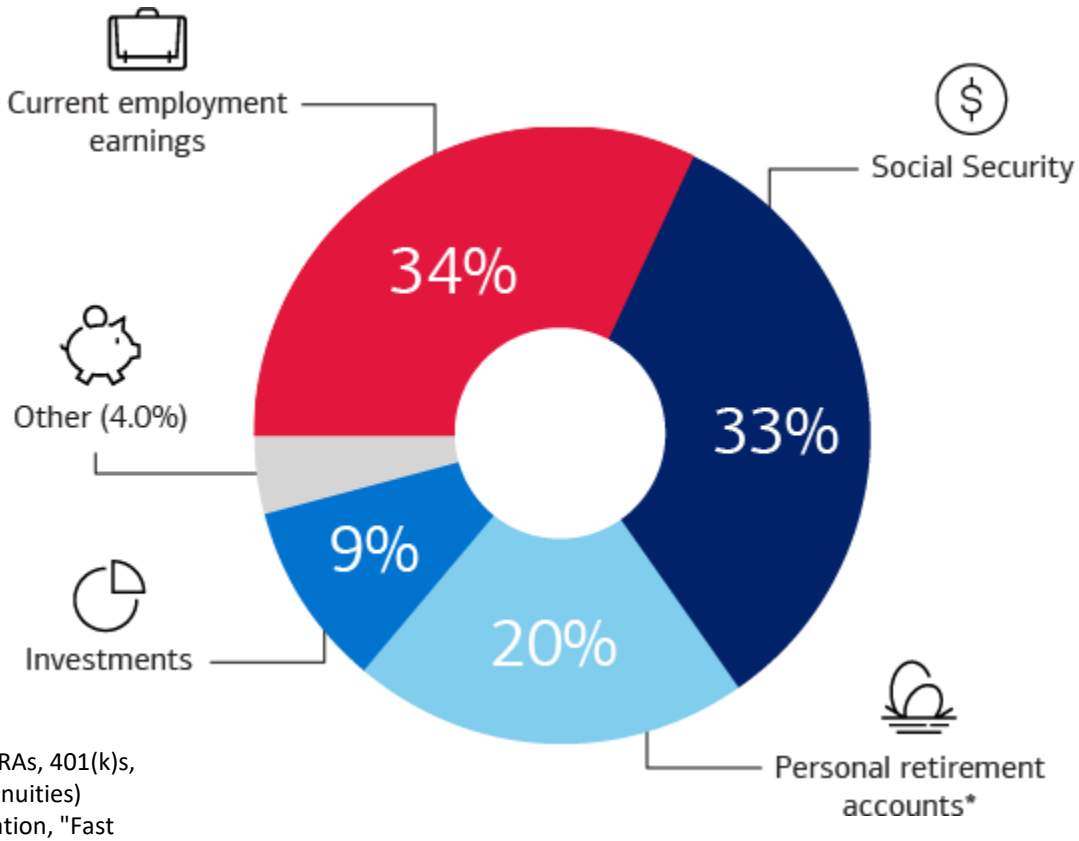
- Guaranteed Annuity Income
- HECM Loans – Tenure Option

NOTE: Each Guaranteed Income Source should be carefully considered to create the most efficient retirement plan…

Implementation of any strategy should be added only after completing a series of "retirement experiments" to assess the value before implementing.

Sources of Retirement Income

(for households Aged 65 & Older)



* (Included Traditional and Roth IRAs, 401(k)s, 403(b)s, pension plan payouts, annuities)
Source: Social Security Administration, "Fast Facts & Figures About Social Security," 2017

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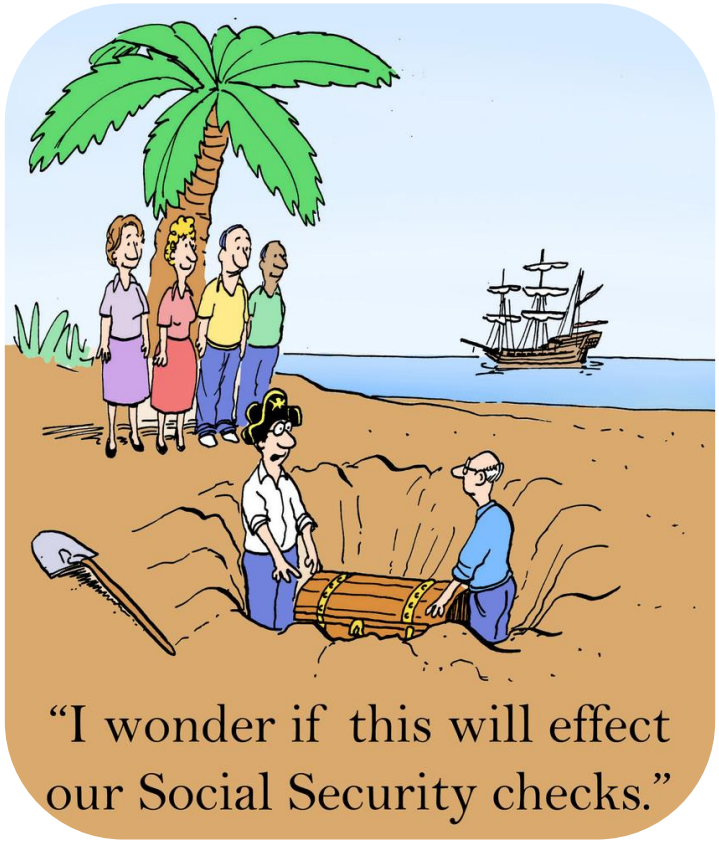
Social Security

Guaranteed Income Source #1



Overview

Social Security typically represents the biggest source of income (for many people).

Signed into law in 1935 during the Great Depression (Old-Age, Survivors, and Disability Insurance (OASDI) Program)

It offers a guaranteed income stream along with longevity protection, spousal protection, and even some inflation protection.

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Social Security & Women

Women earn less than men

Women who work full-time earn only about 81 cents for every dollar earned by men. They're also more likely than men to have low-wage and part-time jobs. Earning less not only means saving less but also putting less into Social Security, which translates into a smaller benefit.

Women are in and out of the workforce more than men

The typical woman is in the workforce for 32 years; the typical man, 44 years. That's mostly because women are more likely than men to take time out of the workforce for caregiving, such as raising children or taking care of elderly parents. They're hurt by years with no earnings, which results in a smaller retirement benefit.

Source: The Social Security Guide | MoneyGeek

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Social Security & Women

Women are less likely than men to have pensions and other retirement plans

Only 22 percent of retired women receive income from pensions compared with 28 percent of men. Moreover, the average pension benefit for women is only 64 percent of the average benefit for men. Also, women are more than twice as likely as men to work part-time and are more likely to change jobs. This leaves them less likely to be able to qualify for employer-sponsored pension, 401(k) and other retirement plans.

Women live longer than men

Women today who reach age 65 outlive men, on average, by 2.3 years (86.6 years versus 84.4 years). With their longer lifespans, women tend to live more years in retirement than men, are more likely to be widowed and are at greater risk of exhausting their sources of income.

Source: The Social Security Guide | MoneyGeek

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SOCIAL SECURITY—A SNAPSHOT

Number of Americans who receive retirement benefits

63 million

Maximum monthly retirement benefit

$3,011

Average monthly retirement benefit

$1,412

Gender gap: $307

(The difference between average monthly benefit of $1,503 for men and $1,196 for women)

Women account for about 56 percent of all Social Security beneficiaries age 62 and older and nearly two-thirds of beneficiaries age 85 and older. And about half of all unmarried elderly women rely on Social Security benefits for 90 percent or more of their income.

Source: The Social Security Guide | MoneyGeek

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How important is Social Security income in your retirement?

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Many Americans leave up to $110,000 on the table by getting their Social Security timing wrong.

Knowing when to claim is one of the important decisions you'll make in retirement.

Source: Americans Sacrifice $3.4 Trillion by Claiming Social Security Too Soon - UCLA Anderson Review

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Claim benefits early and you and your spouse will face a steep and permanent cut in monthly income.

Source: Americans Sacrifice $3.4 Trillion by Claiming Social Security Too Soon - UCLA Anderson Review

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Waiting until later, however, and you'll collect a **payout** that's as much as **50 percent higher**.

Source: Americans Sacrifice $3.4 Trillion by Claiming Social Security Too Soon - UCLA Anderson Review

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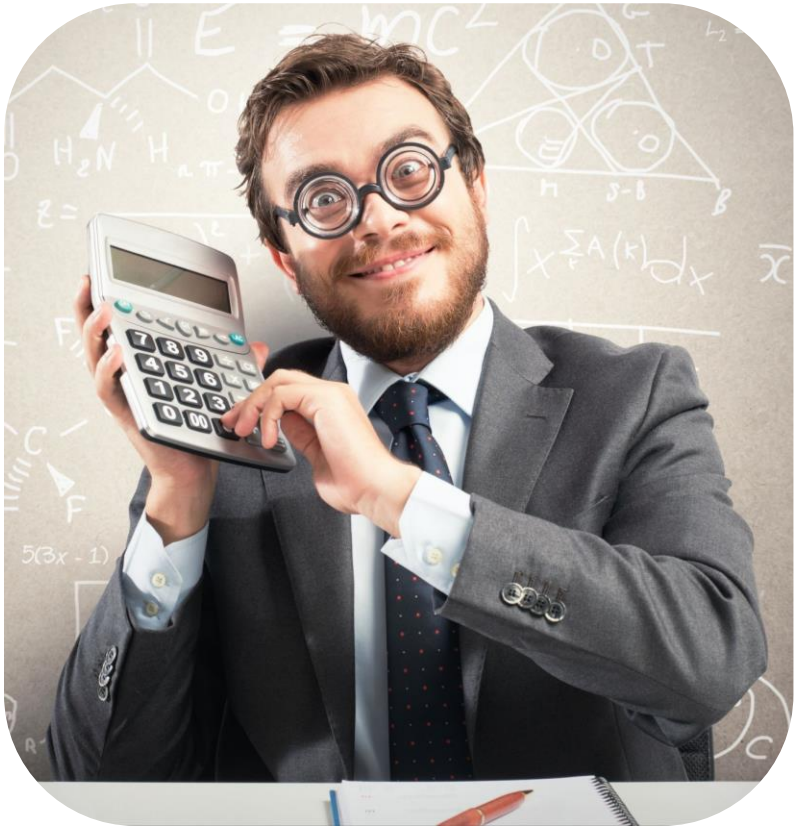
So, how do you decide?

Let's learn a bit about Social Security before we answer this question.

How is Your Benefit Calculated?

Your highest 35 years of earnings are indexed for inflation, then averaged, and a formula is applied to determine your benefit at full retirement age (FRA)

When you are employed and pay Social Security payroll taxes, you can earn up to a maximum of four work "credits" a year by making at least $5,640. You must earn at least 40 credits over 10 years to qualify for a retirement benefit.



Maximum Taxable Earnings (2023)

Social Security tax is assessed at 6.20% for employers and employees and 12.40% for self-employed

- Earning threshold increased from $147,000 to $160,200
- Maximum tax of $9,932

Most Americans Get a “D” on a Social Security Quiz.

Source: Americans Sacrifice $3.4 Trillion by Claiming Social Security Too Soon - UCLA Anderson Review

True/False?

Under current Social Security law, full retirement age is 65 no matter when you were born.

Source: Americans Sacrifice $3.4 Trillion by Claiming Social Security Too Soon - UCLA Anderson Review

False

Someone 65 in 2023 has an FRA of 66 and eight months.
Someone age 60 today has an FRA of 67.
Claiming before those ages means a reduced benefit.

When Can You Claim Your Benefits?

Benefits are based on the age when you claim them.

- Earliest age: 62*
- Full retirement age: 66 to 67**
- Latest age: 70

*Surviving spouses can claim survivor benefits at age 60.

**Full retirement age varies depending on year of birth.

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What is Your Full Retirement Age?

The age at which you can receive a full (un-reduced) Social Security retirement benefit.

If you were born in…	Your full retirement age is…
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

True/False?

If I take retirement benefits before my full retirement age, they will be reduced for early filing.

Source: Americans Sacrifice $3.4 Trillion by Claiming Social Security Too Soon - UCLA Anderson Review

True

If I take retirement benefits before my full retirement age, they will be reduced for early filing.

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How Does Filing Early or Later Affect the Monthly Benefit?

Year of birth	Full retirement age	Age 62 benefit	Age 70 benefit
1943–54	66	75.00%	132.00%
1955	66 and 2 months	74.17%	130.67%
1956	66 and 4 months	73.33%	129.33%
1957	66 and 6 months	72.50%	128.00%
1958	66 and 8 months	71.67%	126.67%
1959	66 and 10 months	70.83%	125.33%
1960 & later	67	70.00%	124.00%

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How Claiming Age Affects Monthly and Annual Benefits?

Todd

Birth year: 1956 Full retirement age: 66 + 4 months

	Monthly	Annually
Age 62 benefit (73.33%)	$1,467	$17,604
Full retirement benefit (100%)	$2,000	$24,000
Age 70 benefit (129.33%)	$2,587	$31,044

Marian

Birth year: 1960 Full retirement age: 67

	Monthly	Annually
Age 62 benefit (70%)	$1,680	$20,160
Full retirement benefit (100%)	$2,400	$28,800
Age 70 benefit (124%)	$2,976	$35,712

These hypothetical examples are used for illustrative purposes only.
Actual benefits and results will vary.

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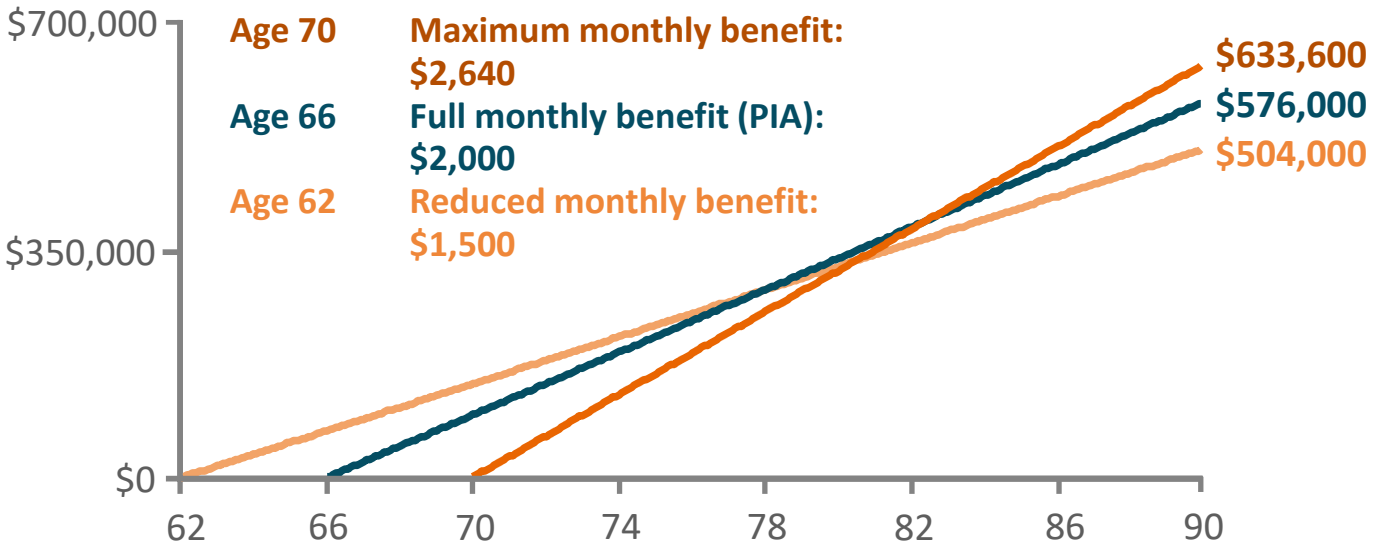
How Claiming Age Affects Lifetime Benefits?

By delaying, you might increase not only your *monthly* benefits but also your *lifetime* benefits, depending on how long you live.



Assumes $2,000 PIA at age 66.

This hypothetical example is used for illustrative purposes only. Actual benefits and results will vary.

True/False?

My Social Security benefits are taxed.

Source: Americans Sacrifice $3.4 Trillion by Claiming Social Security Too Soon - UCLA Anderson Review

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False

They are not, unless your provisional income is above certain levels.

Social Security Taxation

Provisional Income Calculation

Provisional Income	
	Adjusted Gross Income
+	Tax Exempt Income
+	Excluded Foreign Income
+	50% of Social Security Benefit
=	Provisional Income

Social Security Taxation

Provisional Income Example

Provisional Income	
	$32,000 - IRA Distribution
+	$12,000 - Other Income
+	$18,000 - 50% of Social Security
=	$62,000 - Provisional Income

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Social Security Taxation

Will Your Benefit Be Taxable?

Single	Married, Filing Jointly	% of Benefits are Taxable
$0 - $25K	$0 - $32K	0%
Above $25K	Above $32K	50%
Above $34K	Above $44K	85%

Social Security Taxation

Will Your Benefit Be Taxable?

Married, Filing Jointly	% of Benefits are Taxable	$62,000 Provisional Income	$ Amount of Taxable Social Security Income
$0 - $32K	0% of	$32,000	$0
Above $32K	50% of	$12,000	$6,000
Above $44K	85% of	$18,000	$15,300
			TOTAL - $21,300

Social Security Taxation

Provisional Income Example

Provisional Income	
	$32,000 - IRA Distribution
+	$12,000 - Other Income
+	$18,000 - 50% of Social Security
=	$62,000 - Provisional Income

How to Lower Provisional Income & Social Security Taxation

$12,000 – IRA & $20,000 – Roth
+ $12,000 – Other
+ $18,000 - 50% of Social Security
= $42,000 – Provisional Income

Social Security Taxation

Reducing Tax Comparison

Married, Filing Jointly	% of Benefits are Taxable	$62,000 Provisional Income	$ Amount of Taxable Social Security Income
$0 - $32K	0% of	$32,000	$0
Above $32K	50% of	$12,000	$6,000
Above $44K	85% of	$18,000	$15,300
			TOTAL - $21,300

Married, Filing Jointly	% of Benefits are Taxable	$42,000 Provisional Income	$ Amount of Taxable Social Security Income
$0 - $32K	0% of	$32,000	$0
Above $32K	50% of	$10,000	$5,000
Above $44K	85% of		
			TOTAL - $5,000

True/False?

Once I start collecting Social Security, my benefit payments will never change.

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False

Social Security offers a COLA to keep pace with inflation.

Understanding COLAs

Source: Social Security Administration, 2022

2000	3.5
2001	2.6
2002	1.4
2003	2.1
2004	2.7
2005	4.1
2006	3.3
2007	2.3
2008	5.8
2009	0.0
2010	0.0
2011	3.6
2012	1.7
2013	1.5
2014	1.7
2015	0.0
2016	0.3
2017	2.0
2018	2.8
2019	1.6
2020	1.3
2021	5.9
2022	8.7

Since 2000 the average COLA increase has been 2.5%

See this 2021 fact sheet: 2023 Social Security Changes (ssa.gov)

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Understanding COLAs

Estimated Average Monthly Social Security Benefits Payable in January 2023		
	Before 8.7% COLA	After 8.7% COLA
All retired workers	$1,681	$1,827
Aged couple, both receiving benefits	$2,734	$2,972
Widowed mother and two children	$3,238	$3,520
Aged widow(er), alone	$1,567	$1,704
Disabled worker, spouse, and one or more children	$2,407	$2,616
All disabled workers	$1,364	$1,483

True/False?

If I delay taking Social Security benefits past the age of 70, I will continue to get delayed retirement credit increases each year I wait.

False

There are no additional delay benefits beyond waiting until age 70 to start.

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True/False?

If I have a spouse and he or she passes away, I will receive both my full benefit and my deceased spouse's full benefit.

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False

When a spouse passes away, the surviving spouse is entitled to collect one benefit — hers or her spouse's. (Most surviving spouses are women.) That makes it so important for the highest-earning spouse to consider delaying until age 70, if possible, which locks in the highest possible benefit.

Note: Survivor's benefits may be payable as early as age 60, subject to reduction.

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True/False?

As a divorced person, I might be able to collect Social Security benefits based on my ex-spouse's earnings history.

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True

If you were married for at least 10 years, and you haven't remarried, you can choose to use your ex's Social Security earnings record to determine your benefit. It doesn't matter if your ex has remarried. All that matters is that you haven't.

Divorce & Social Security Details

As a divorced spouse, you may be entitled to Social Security benefits based on ex's work record if:

- You were married for at least 10 years
- Must be divorced for 2 years
- You have attained the minimum age required
- You are unmarried*
  (it doesn't matter whether ex has remarried)
- Your own worker benefit would be lower than ex-spouse's benefit

Note: Remarriage after reaching age 60 does *not* affect eligibility for survivor benefits if ex is deceased.

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True/False?

Earnings from a job will reduce my benefit.

It Depends…

Earnings from a job will reduce my benefit?
If you're under full retirement age it will. If you have reached full retirement age, it will not.

Social Security

How Working Affects Benefits?

Before full retirement age	→	$1 reduction for every $2 that earnings exceed annual limit-- $21,240 ($1,770 monthly) in 2023
Year you reach full retirement age	→	$1 reduction for every $3 that earnings exceed annual limit-- $56,520 ($4,710) in 2023
At or after full retirement age	→	Earnings will not affect your benefit

True/False?

Social Security is going bankrupt and there won't be any benefits left when I retire?

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False

By 2033, 79% of a person's annual benefits will be funded.

Demographic Trends Are the Cause

- In 1945, the ratio of workers to Social Security beneficiaries was 41.9 to 1*
- In 2013, the ratio of workers to Social Security beneficiaries was 2.8 to 1*
- In 2035, the projected ratio of workers to Social Security beneficiaries will be 2.1 to 1

*Social Security Administration, 2014 OASDI Trustees Report.

What Changes Can We Expect?

Restructuring Social Security always seems to be on the political agenda. Possible future changes may include:

- Delaying full retirement age
- Reducing cost of living increases
- Modifying the benefit formula to reduce basic benefits
- Increasing payroll taxes

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Social Security

Re-Cap of 2023 Changes

- Social Security recipients got a new historic COLA adjustment of 8.7% for 2022, compared with the 5.9% hike that beneficiaries received in 2022 for 2021.
- Maximum earnings subject to the Social Security tax also increased in 2023—from $147,000 a year to $160,200.
- Social Security tax rates increased: 7.65% on employees and 15.30% on the self-employed.
- It now takes $1,470 to earn a single Social Security credit, up $60 from 2020.
- Other changes for 2023 include an increase in how much money working Social Security recipients can earn before their benefits are reduced and a slight rise in disability benefits.

Your Social Security Statement

- **There are three ways to apply for Social Security benefits:**

1. Make an appointment at your local Social Security office to visit in person.
2. Apply by telephone by calling 1-800-772-1213.
3. Apply for Social Security online at www.socialsecurity.gov, a process that typically takes 15 to 30 minutes.

More resources: Get What's Yours: The Secrets to Maxing Our Your Social Security by Laurence J. Kotlikoff, Philip Moeller, and Paul Solman (Simon & Schuster, 2015)

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So, when should I claim Social Security (and how do I avoid leaving $ on the table)?

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It depends, because everyone's situation is different.

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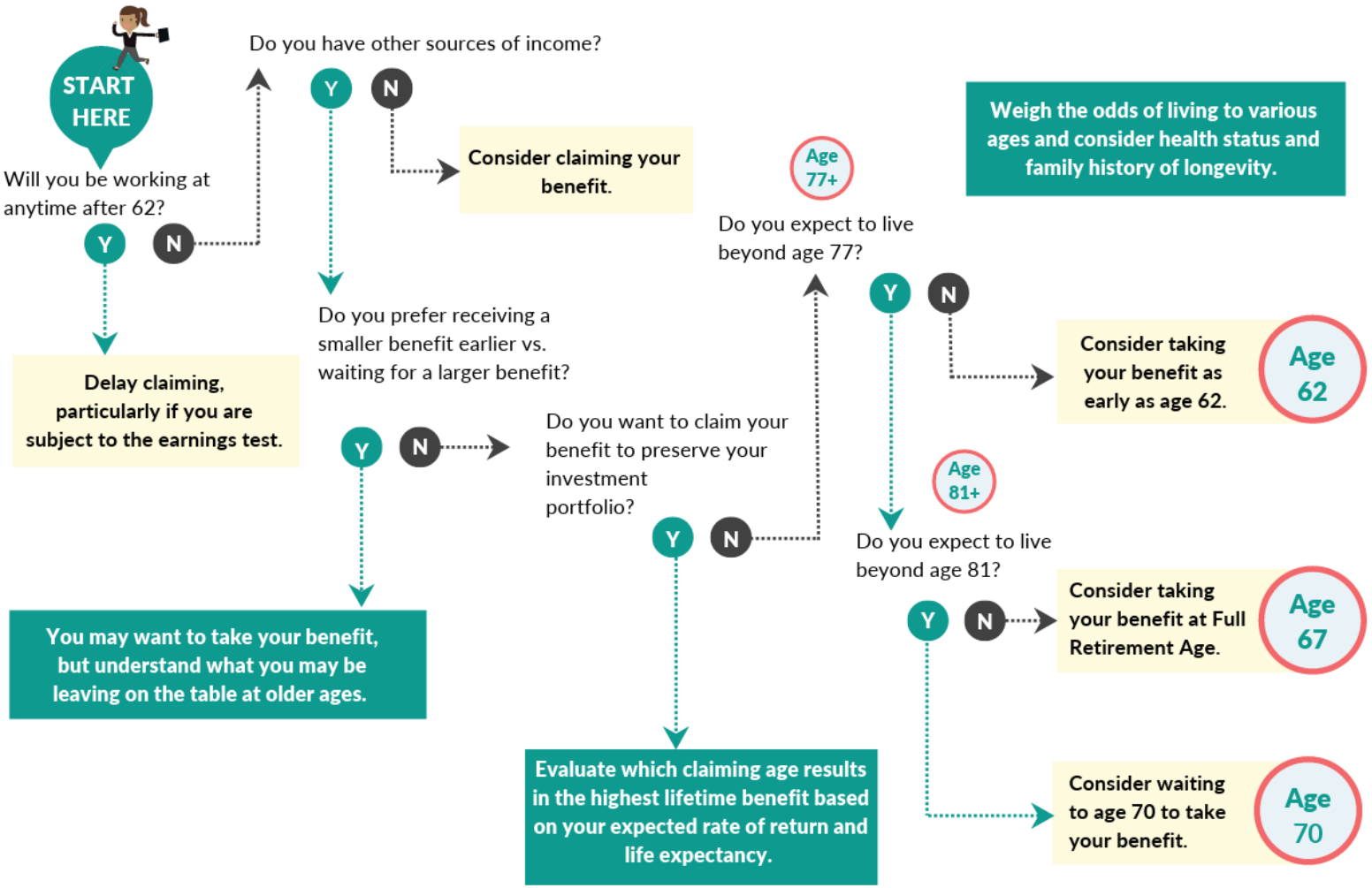
Social Security Decision Tree



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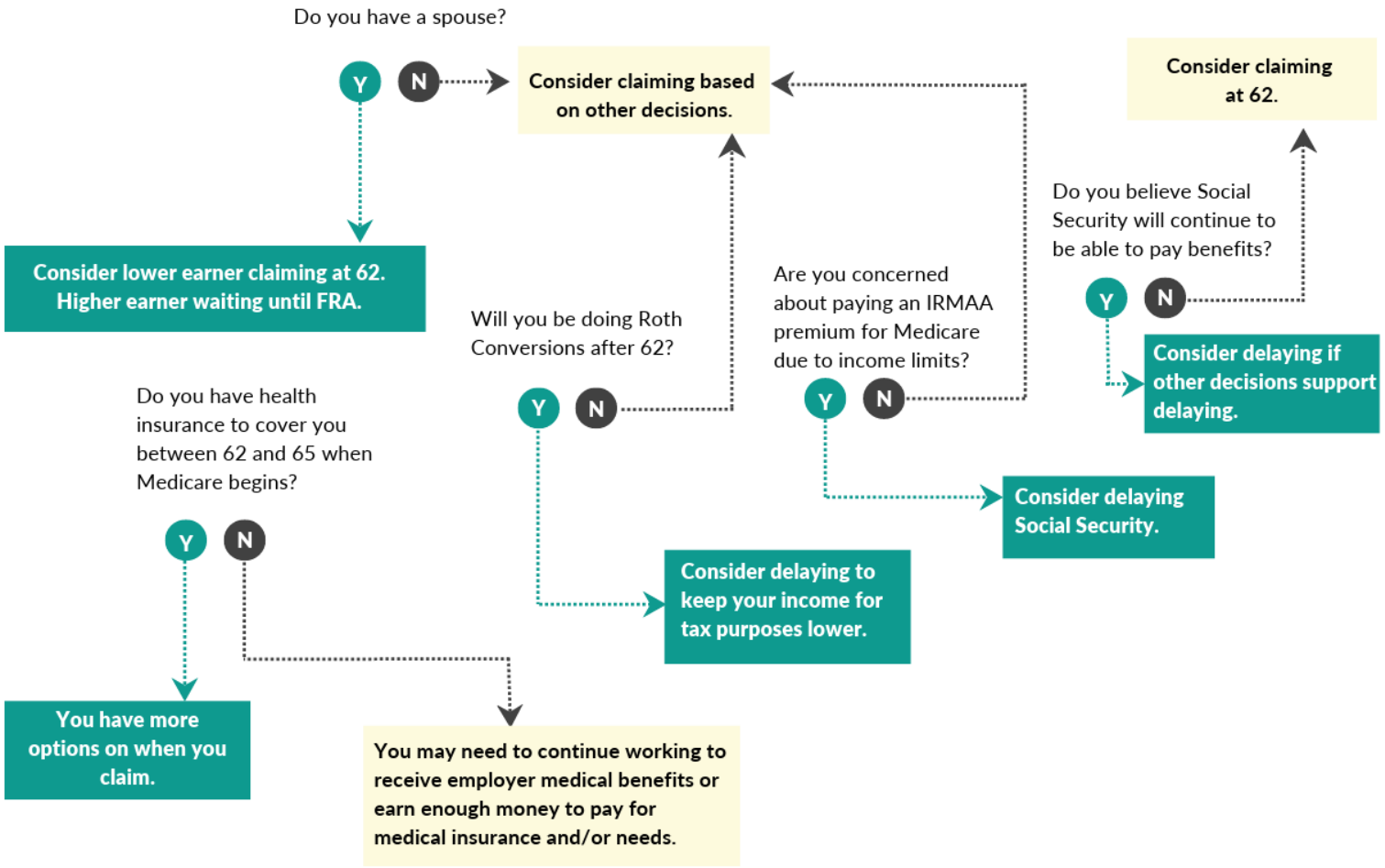
Social Security Decision Tree



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Claiming Options

Claiming at age 62

THE CASE FOR IT

Collecting early retirement benefits may make sense if you're broke or near-broke and in the ranks of the long-term unemployed, or if you have serious health issues that may limit your lifespan. About half of Americans claim benefits as soon as they turn 62.

THE CASE AGAINST IT

You'll have to live permanently on a benefit that's at least 25 percent smaller than if you waited just a few more years to collect. (The reduction goes up to 30 percent in 2022 for people born in 1960 or later). Your annual cost-of-living adjustment (COLA) will be smaller, too. Taking this substantial cut in your fixed income will likely affect your ability to live comfortably in retirement.

Bottom line

If you're in good health and don't have enough put away to maintain the standard of living you're accustomed to, then keep working. As you near retirement, you may well be at the top of your earnings game, allowing you to maximize your Social Security benefit and your savings for retirement. You can even make catch-up contributions to your 401(k) or 403(b) plan or to a traditional or Roth IRA

Source: The Social Security Guide | MoneyGeek

Claiming Options

Claiming at full retirement age

THE CASE FOR IT

You collect 100 percent of your benefit.

THE CASE AGAINST IT

You could be collecting more. Social Security gives you an incentive to wait even longer for a bigger payout.

Bottom line

If you haven't saved as much as you should have for retirement and are in relatively good health, it may make sense to wait a little longer up until age 70.

Source: The Social Security Guide | MoneyGeek

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Claiming Options

Claiming up until age 70

THE CASE FOR IT

Your monthly benefit will increase by about 8 percent for each year after your full retirement year that you delay claiming up until age 70, which may be even more important if you're the higher earning half of a couple.

THE CASE AGAINST IT

You don't expect to live to a ripe old age, or you've saved enough to live comfortably in retirement.

Bottom line

Wait if you can. As investments go, an annual return of 8 percent is a no-brainer.

Source: The Social Security Guide | MoneyGeek

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Claiming Options

Strategies for Couples

The 62/70 Split

THE CASE FOR IT

The lower earning spouse, let's say the wife, files early at age 62 to claim a benefit based on her own record. The higher earning husband delays filing until age 70 to collect the highest benefit possible. If the husband dies after 70, his wife can take her husband's bigger benefit and drop her own.

THE CASE AGAINST IT

The lower earner who filed early will collect reduced benefits permanently.

Bottom line

If both people are in good health, delay claiming your benefit until age 70 to collect the highest payout possible.

Source: The Social Security Guide | MoneyGeek

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Claiming Options

File and Restrict

THE CASE FOR IT

Applying for Social Security but restricting your claim to your spousal benefit may boost your lifetime payout. This strategy typically works best in cases where the younger spouse is not the higher earner. Also, you're delaying your own payout so it can grow by 8 percent a year.

THE CASE AGAINST IT

Be careful. If you don't understand the restricted application language and you don't mark that option clearly on your Social Security claim, you'll receive payments from your own record and not from your spouse's.

Bottom line

Congress is phasing out this option, too. Anyone born on or before Jan. 1, 1953, however, is grandfathered in and will still be able to file a restricted application.

Source: The Social Security Guide | MoneyGeek

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Claiming Options

Claiming Survivor Benefits Early

THE CASE FOR IT

If your spouse dies and you take the survivors benefit before your full retirement age, you'll collect benefits for a longer period of time.

THE CASE AGAINST IT

If you take the survivors benefit before your full retirement age, the benefit is likely to be reduced by up to 29 percent.

Bottom line

Look before you leap. Each person's situation is different so the decision to take the benefit early is a personal one.

Source: The Social Security Guide | MoneyGeek

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Time Out for a Tip

Medicare

The Social Security Administration also handles enrollments for Medicare, so you should use the same process to sign up for Medicare three months before you turn 65—even if you're not ready to start receiving Social Security retirement benefits. You can apply for retirement benefits later.

A Retirement Income Projection, which includes Social Security & all income sources is key

- Determine maximum income
- Assess breakeven analysis
- Integrate benefit with all retirement assets to determine the highest probability of portfolio survival

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There's literally hundreds of Social Security claiming strategies. Getting a retirement income projection and advice from a retirement specialist is a fabulous idea.

Guaranteed Income Sources

- Social Security Income
- **Defined Benefit Pension Income**

Ways to create guaranteed income:

- Guaranteed Annuity Income
- HECM Loans (aka reverse mortgage)

NOTE: Each Guaranteed Income Source should be carefully considered to create the most efficient retirement plan…

Implementation of any strategy should be added only after completing a series of “retirement experiments” to assess the value before implementing.

Guaranteed Income Source #2

Defined Benefit Plans

- **Defined Benefit Plans**
  - Traditional Pensions are the exception
  - Company is responsible for generating a guaranteed income for life for each participant

Note: a Defined Contribution Plan is where participant is responsible for creating an income stream that will last a lifetime (and is not “guaranteed”)

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Do you have a defined benefit/pension?

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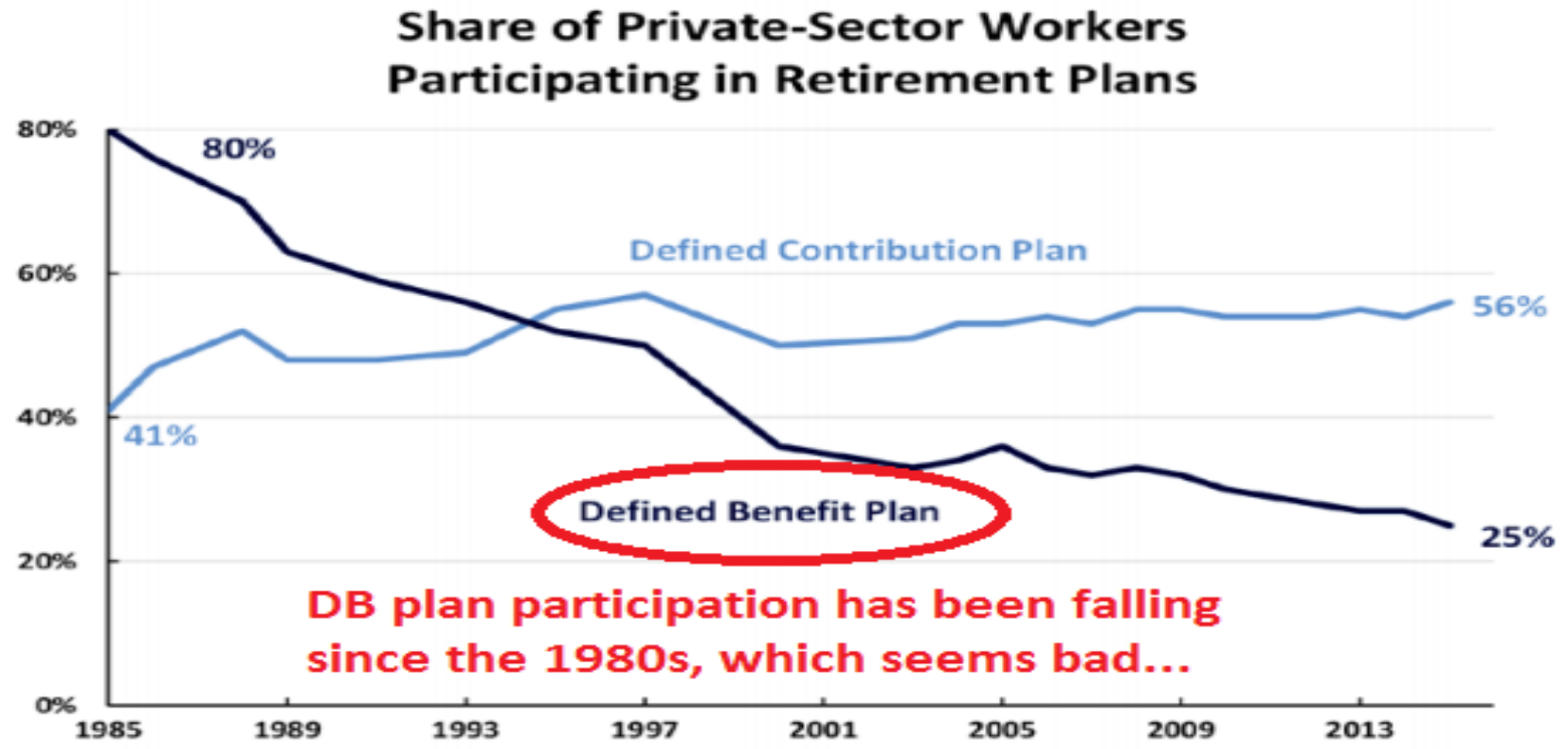
DB Plan Participation Since 1985



Sources: Employee Benefit Research Institute and the Bureau of Labor Statistics, National Compensation Survey

Notes: Employees at medium and large establishments, 1985 to 2015. "Medium and large establishments" denotes those witth 100 or more employees; data are interpolated for the following years: 1987, 1990, 1992, 1994, 1996, 1998, 1999, 2001 and 2002.

Defined Benefit Pension Plans

How They work?

Traditional Pensions pay a guaranteed monthly income for a specified period or lifetime

- Offered by Non-Profit or Private Entity
- The Entity is responsible for the guaranteeing the payments
- A formula is applied for calculating the benefit

Defined Benefit Pension Plans

How They Work?

Typical Payout Options –

- ***Lifetime Income Only***
  - Maximum payout option
  - Payments cease at the death of the pension owner
- ***Lifetime Income with Joint & Survivor option***
  - Reduced payout option
  - Payments continue to the spouse or chosen beneficiary
- ***Many other options may be available***

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Example: Lifetime Income Options

	Retiree Monthly Benefit	Survivor Monthly Benefit	Estate
Single Life Option	$1,667	$0	$0
Joint & 100% Survivor	$1,175	$1,175	$0
Joint & 50% Survivor	$1,500	$750	$0

This hypothetical example is used for illustrative purposes only.

Guaranteed Income Sources

- Social Security Income
- Defined Benefit Pension Income

Ways to create guaranteed income:

- **Guaranteed Annuity Income**
- HECM Loans – Tenure Option

NOTE: Each Guaranteed Income Source should be carefully considered to create the most efficient retirement plan…

Implementation of any strategy should be added only after completing a series of “retirement experiments” to assess the value before implementing.

How to Create a Guaranteed Income Stream?

Create "Your Personal Pension" with Guaranteed Income Annuities (aka Income Insurance or Sleep Insurance)

- An insurance-based contract between you and the issuer
- You pay premiums with pre-tax or after-tax dollars
- Issuer invests your money in the general account
- Earnings accumulate tax deferred
- Select from an array of guaranteed Income options
- Earnings are taxed as ordinary income when distributed

There is a surrender charge (CDSC) imposed generally during the first 5-7 years that you own your annuity contract. Withdrawals prior to age 59 1/2 may result in a 10% IRA tax penalty, in addition to any ordinary income tax. The guarantee of the annuity is backed by the claims paying ability of the issuing insurance company.

Guaranteed Income Annuities

Two Types of Annuities

- **Deferred or Accumulation Annuities**
  - Fixed, Variable & Indexed Varieties
  - Provide growth potential

- **Guaranteed Income Annuities**
  - Fixed, Variable & Indexed Varieties
  - SPIA or GMIB
  - Provide immediate guaranteed income
  - Guarantee provided by the issuing insurer

Three Types of Income Annuities

1. Single Premium Immediate Annuity (SPIA)

- Purchase with a lump-sum premium payment
- Can purchase with Non-Qualified or Qualified funds
- Pays an immediate guaranteed income for life
- Many payment options, similar to a Defined Benefit Plan
- Can select an annual inflation adjustment typically between 1-3%

N/B: Investors should consider the investment objectives, risks, charges, and expenses of the variable annuity and the underlying subaccounts carefully before investing. The prospectus contains this and other information about the variable annuity.
Index annuities are insurance contracts that, depending on the contract, may offer a guaranteed annual interest rate and some participation growth, if any, of a stock market index. Such contracts have substantial variation in terms, costs of guarantees and features and may cap participation or returns in significant ways. Any guarantees offered are backed by the financial strength of the insurance company, not an outside entity. Investors are cautioned to carefully review an index annuity for its features, costs, risks, and how the variables are calculated.

*The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company

Three Types of Income Annuities

2. Variable Annuity with a Guaranteed Minimum Income Benefit (GMIB) Rider

- Purchase with a Lump sum or series of contributions
- Purchased with NQ or Qualified funds
- Earnings Grow Tax Deferred during the accumulation phase
- Growth is based on the returns of Separate Accounts which are similar to Mutual Funds
- As with mutual funds the value will fluctuate with the market returns

*The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company

Three Types of Income Annuities

2. Variable Annuity with a GMIB Rider (GMIB)

- GMIB Rider is an additional annual expense
- Income will begin when the GMIB is “turned on”
- Typically the guaranteed income is 4-6% of the account value
- The income will be guaranteed for life by the issuing insurer

*The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company

Three Types of Income Annuities

3. Fixed Indexed Annuity with a GMIB Rider

- GMIB Rider is an additional annual expense
- Income will begin when the GMIB is “turned on”
- Typically the guaranteed income is 4-6% of the account value
- The income will be guaranteed for life by the issuing insurer
- Can Purchase with a Lump sum or series of contributions
- Can be purchased with NQ or Qualified funds
- Earnings Grow Tax Deferred during the accumulation phase
- Growth is based on the returns of an investible index such as the S&P 500 Index and a percentage of the index gain will be credited
- Principle is guaranteed with no market loss potential

*The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company

Guaranteed Income Sources

- Social Security Income
- Defined Benefit Pension Income

Ways to create guaranteed income:

- Guaranteed Annuity Income
- **HECM Loans (aka reverse mortgage)**

NOTE: Each Guaranteed Income Source should be carefully considered to create the most efficient retirement plan…

Implementation of any strategy should be added only after completing a series of “retirement experiments” to assess the value before implementing.

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Time Out for a Tip

A Reverse Mortgage is not a bad thing!

It's been called the Swiss Army Knife or retirement planning by many researchers

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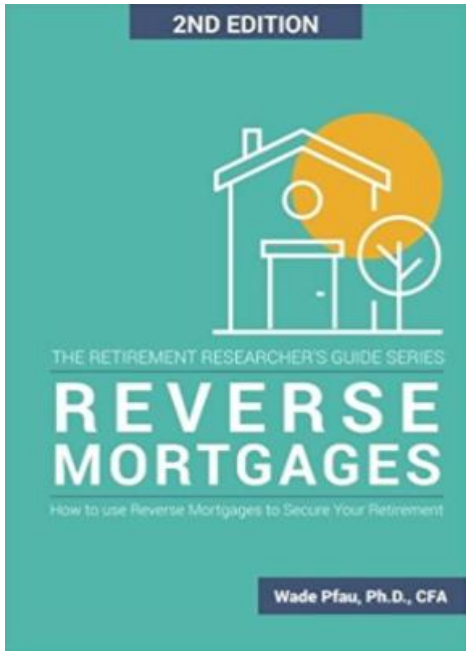
How to Create a Guaranteed Income Stream?

HECM Loans: thinking outside the box

- Your home is a dead asset…can turn home equity into a **"Safety Net"** as a buffer to protect you against the what-ifs
- Your home equity is a major asset that can be integrated into a well orchestrated retirement plan
- Leading academic research indicates that the use of home equity in retirement may increase the probability of portfolio survival and also increase the legacy to loved ones.

H.E.R.O.S.: HECM Loan

How to Use HECM (Reverse Mortgages) to Secure Your Retirement



"Initiating the reverse mortgage earlier and then coordinating spending from home equity throughout retirement offers a way to meet spending goals and provide a larger legacy."

"That is the ultimate goal of retirement-income planning: using assets to allow for more income and/or a larger legacy."

Wade D. Pfau, Ph.D., CFA
Professor of Retirement Income, The American College

Source: Advisor's Perspectives, December 1, 2015

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HECM Requirements

Can I tap into my home equity to support myself in retirement ?

- Must be 62 Years of age
- Typically need 60% equity to qualify
- Owners must maintain the home as well as pay property taxes
- Any outstanding loan balance accrues internally and will be repaid upon death or sale of the property --- any equity is retained by the owners or the estate
- Non-recourse Loan – If the loan amount exceeds the home's value, the lender cannot go after the borrower, heirs or the estate.

How to Utilize a HECM?

- **Line of Credit –** Can create an increasing line of credit which can be utilize as a tax-free source of funds
- **Tenure Payment –** Can create a guaranteed income payment for life
- **Eliminate Monthly P&I Payment –** Can eliminate the P&I payments based upon your equity balance
- **HECM for Purchase –** Can purchase a home with approximately 50% payment and eliminate future monthly P&I mortgage payments

THE BIG “AHA”

A Growing Line of Credit

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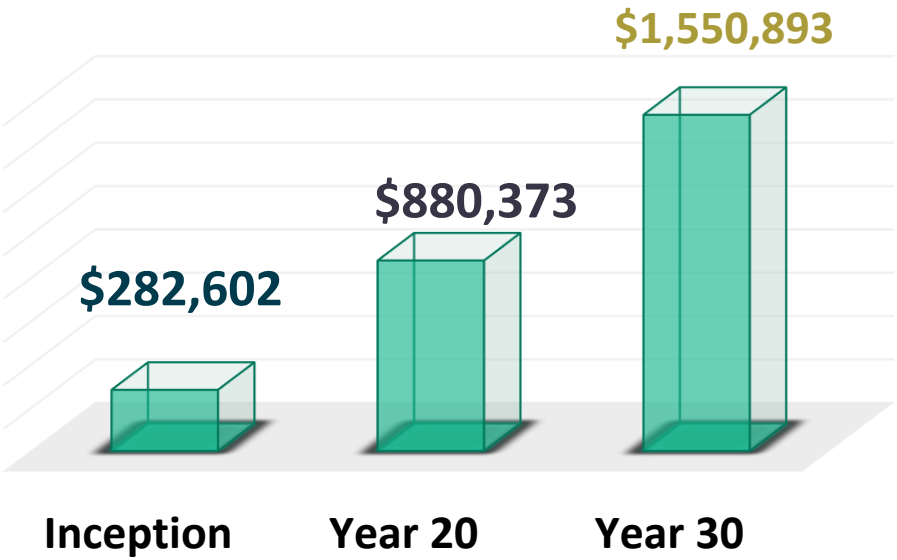
HECM Line of Credit (LOC) Growth*

62-year-old client with $800,000 Home Value



NOTEWORTHY: Line of credit is still in-force if one borrowing spouse must move to care facility, provided other spouse remains in the home. The line also remains in-force if one spouse pre-deceases the other, with same condition.

Not available in all states. Certain conditions and fees apply. Information shown for illustrative purposes only. Assumptions are: (1) 62-year-old borrower; (2) IL home valued at $800,000; (3) LOC will grow at .5% above the interest rate for an Adjustable Rate Mortgage (ARM), which uses the 1-Year LIBOR plus a margin of 3.375%. The initial interest rate is 5.195% which can change annually. There is a 2% annual interest cap, and a 5% lifetime interest cap over the initial interest rate. Maximum interest rate is 10.195%; (4) the growth rate remains at 5.695%; (5) Annual Percentage Rate (APR) is 5.695%. Maximum Annual Percentage Rate (APR) is 10.695%; (6)there are no draws taken from the line of credit by the borrower. Borrower pays down any accumulated interest annually. Rates and funds available may change daily without notice.

*If part of the borrower's loan is held in a line of credit upon which they may draw, then the unused portion of the line of credit will grow in size each month. The growth rate is equal to the sum of the interest rate plus the annual mortgage insurance premium rate being charged on the borrower's loan. Charges such as an origination fee, mortgage insurance premiums, closing costs and/or servicing fees may be assessed and will be added to the loan balance. As long as you comply with the terms of the loan, you retain title until you sell or transfer the property, and, therefore, you are responsible for paying property taxes, insurance and maintenance. Failing to pay these amounts may cause the loan to become immediately due and/or subject the property to a tax lien, other encumbrance or foreclosure. The loan balance grows over time, and interest is added to that balance. Interest on a reverse mortgage is not deductible from your income tax until you repay all or part of the interest on the loan. Although the loan is non-recourse, at the maturity of the loan, the lender will have a claim against your property and you or your heirs may need to sell the property in order to repay the loan, or use other assets to repay the loan in order to retain the property.

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Line of Credit Growth Rate

- The growth rate is always 1.25% above the initial interest rate (IIR), which is the annual rate that interest accrues on the loan balance.
  - For example, if the IIR on the loan balance is 4.00% then the growth rate on the credit line would be 5.25% (4.00% + 1.25%)

- As long as at least one borrower is living in the home and paying the required property charges (property taxes, homeowner's insurance, etc.), the line of credit is always guaranteed to grow without limit.

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Can you name one of the four Guaranteed Income Sources?

True/False?

I learned a lot from this class.

True

You learned that you should…

- ❑ *Calculate all your guaranteed retirement income sources*
- ❑ *Maximize your Social Security filing strategy*
- ❑ *Get a Retirement Income Projection Analysis and advice*
- ❑ *Determine your income gap*
- ❑ *Fund your gap with savings and investments, and other sources*

Next Steps...

1. Remember to vist the resource portal
2. Enter your info into the software Assess module
3. Get ready for the next module

Reminder!

Take action and hold yourself accountable. This class and our platform can help get you started. Our coaching can keep you going and hold you accountable while also connecting you to the resources you need.

Reminder: You Can Get Help Anytime You Need It…

1. Work with Her Retirement to get fully prepared for planning and implementing
2. Request ANY type of assessment
3. Connect with a CFP to get your plan started or subject matter experts to review an existing plan and get a revised one or new one implemented, or discuss an urgent issue

Schedule time on Lynn's calendar to discuss any of the above options.

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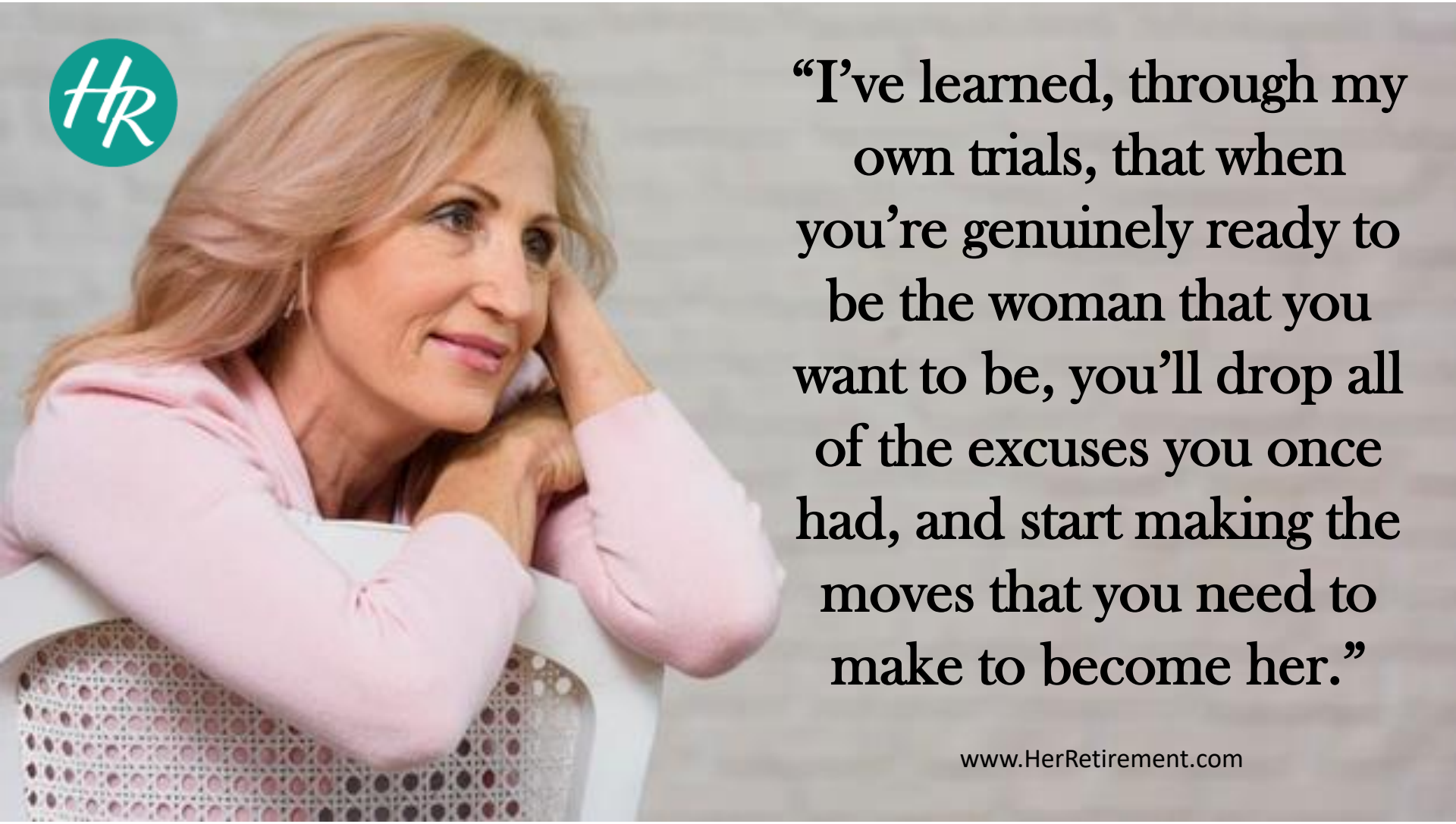

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Thank you for being a student & steward of your retirement.

SmartHER. StrongHER. More Secure.

Let's Get Her Done.