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Investment Advisory Services offered through Investment Advisory Representatives of Retirement Investment Advisors, Inc., a Registered Investment Advisor.



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## Financial Briefs

APRIL 2015

### Your Biggest Retirement Planning Questions Answered

Planning for retirement often seems to involve more questions than answers. Below, we answer some of the most common questions, so you can make more informed decisions when planning for the future.

#### How Much Do I Need to Save?

You probably wish there was a simple answer to this question. Unfortunately, there's not. How much you need to save depends on a lot of factors, including your current age, the age when you plan to retire, your expected lifestyle, how much income you might get from Social Security and pensions, and even how long you expect to live. There are plenty of online calculators that can help, but meeting with a financial advisor can help you draw an even clearer picture. We can work with you to model different scenarios, so you can see how far your savings will really go.

#### When Should I Retire?

Many people assume they should retire as soon as they're eligible for Social Security — that's age 62 for most people. But choosing to retire based on that single metric isn't a great idea. For one, given longer life expectancies, a healthy 62-year-old can expect to live for another few decades. You may simply not be ready to give up work that

soon. Two, the earlier you retire, the longer your money needs to last. If you haven't saved a lot, you may need to keep working to save more, preserve what you've already set aside, and potentially increase your Social Security benefits.

The fact is, determining when to retire is a very personal decision based on your health, your spouse's health, your total savings, and more. Meeting with a financial advisor to

determine a realistic retirement date based on your financial situation is likely to lead to more success.

#### Is It Realistic to Plan on Working Part-Time in Retirement?

Many people plan to make up a retirement savings shortfall by continuing to work part-time in retirement. There are a lot of advantages to that plan, including staying active and engaged and also avoiding  
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### How Much Do You Really Need to Retire?

There are a lot of reasons people don't save for retirement or don't save enough. They feel they don't make enough, they have more immediate financial needs, or they're not sure how to get started. One other reason? People aren't sure how much they need to save, which can make it hard to get started. After all, if you don't have a clear destination in mind and a plan for reaching that destination, getting started is hard. In fact, only 44% of people have even attempted to calculate how much they might need to save for retirement, according to the 2014 Retirement Confidence Survey.

Unfortunately, there's not a magic retirement number that applies to every single person. We're all different, and we all have different retirement needs. There are a

variety of ways to estimate how much you might need to enjoy a secure retirement. We'll review a few of them below.

#### The Goal: \$1 Million

When it comes to retirement savings goals, people often fixate on one number: \$1 million. Why? It's a nice round figure and it seems like a lot of money. Who wouldn't want to be a millionaire, after all?

One million dollars isn't a bad place to start as far as retirement savings goals go. But the problem is that it isn't calibrated to your particular needs. A \$1 million portfolio translates into an income of about \$40,000 a year over a 30-year retirement. That, combined with income from Social Security, could mean a comfortable or strained retirement  
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## Your Biggest Retirement

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depleting your savings. But assuming that you'll be able to work through your 70s may not be a safe bet. First, there's no guarantee you'll be able to get a job in retirement — the economy can be fickle and age discrimination is real, making it harder for some older people to find employment. Plus, there's the health question. Your chances of becoming disabled increase as you age, which could make it impossible to work. Your best bet? Save as much as you can now, and don't count on being able to work in retirement.

### How Much Can I Take from My Portfolio Every Year?

For years, the rule of thumb has been that you can withdraw 4% of your portfolio value every year in retirement. That's a ballpark number that should keep you from spending down your principal and exhausting your savings, assuming your retirement lasts 30 years. But what do 4% withdrawals really look like? If you have \$500,000 in retirement savings in a diverse portfolio, you'd generate income of about \$23,000 per year if you followed the 4% rule. That doesn't exactly promise a life of luxury.

Some people think the 4% rule is out of date. They believe stock and bond returns could be lower in the future than they have been historically, which could make 4% withdrawals too aggressive. These people would advise taking out even less every year, which of course means saving even more.

### I'm in My 50s and Worried I Don't Have Enough Saved.

First, the good news. You'll probably be able to retire. Eventually. But you may have to work longer than you want. And you may have to make some lifestyle adjustments to avoid running out of money. The answer really depends on how much you have today and what you expect your retirement to look like. If you have healthy savings but are still worried about falling short, you may be able to make up the differ-

## Things to Consider When Relocating

Major life changes often mean changes in your living situation, and retirement is no exception. Whether you plan to stay put in your home or want to retire to an exotic location, there are some issues you'll need to consider.

*If you're thinking about staying put...* Like many retirees — perhaps the majority — you don't plan to relocate in retirement at all. If you've lived in a home for a while, you probably have a good idea of what it's going to cost to continue to live there, an important part of retirement planning. But there are some challenges that could come with staying in your current home. If you raised a family, your home may be bigger than you really need. Maintenance costs and taxes may exceed what you really need to spend. Plus, there's the issue of accessibility. You may need to take steps to make sure that's possible, like adding ramps, modifying bathrooms, or widening doorways.

*If you're thinking of buying a second home...* Dreaming of life in the sun? If this is your plan, make sure your finances can handle it. You'll need to carry the cost of owning and maintaining two properties. (Renting one out when you're not there could minimize costs, though that can come with its own headaches.) Plus, there are travel expenses, which can add up quickly. You'll also need to make sure that you have access to health care, banks, and other essential amenities in your new location.

*If you're thinking of moving to another state permanently...* Relocating in retirement can mean an exciting adventure, but you need to be prepared. Consider taxes and the cost of living before you pack up. Will you have access to good health-care? Will you be able to build a new social network? Will your religion or political leanings leave you feeling isolated in your new home? Will you be too far away from your family members?

*It you're thinking of retiring abroad...* A desire to experience new cultures, along with the possibility of a lower cost of living, inspire many to move to exotic retirement locales. If moving abroad is a possibility for you, you'll need to consider some of the same issues as you would if you were moving to another state. But there are additional issues. Taxes on U.S. citizens abroad can be a stumbling block. Make sure you understand the potential challenges of life in a foreign country as well. For example, some places have restrictions on whether foreigners can own property. Health care may not be up to the standard you're used to. Plus, Medicare won't cover care abroad. You'll also need to be prepared for other lifestyle differences, from the type of food that is available to different rules about setting up bank accounts.

Not sure where you should live in retirement? Please call if you'd like to discuss this in more detail.

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ence by saving more aggressively in the next decade and perhaps cutting spending (getting rid of extras like RVs and fancy vacations, or moving to a smaller, less-expensive home).

If you're really far behind, you have your work cut out for you. But you can improve the situation. First, start saving as much as you can now. And plan to work for as long as possible so you can keep saving

and get the most out of Social Security (if you don't claim until age 70, your benefits will be permanently higher by 8% for each year you delay past normal retirement age). You'll also want to look for ways to reduce expenses and increase your income. Please call if you'd like to discuss your retirement plans in more detail. ■

## How Much Do You?

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budget, depending on your lifestyle. If your expenses are modest and you live in a relatively inexpensive area, that \$1 million portfolio could be more than adequate (some people may even be happy living on less). But if you live in a big city, are still paying your mortgage, or want to travel a lot, you may not have enough. To really plan for retirement, you need a more specific number.

### The Goal: Replace 70% to 80% of Your Preretirement Income

Retirement planning experts often talk about income replacement rates. In simple terms, this is the percentage of your preretirement income you would need to maintain roughly the same standard of living you had before retirement. The rule of thumb is that most people will need between 70% and 80% of their preretirement income. This estimate is based on the idea that your expenses will shrink once you stop working — you'll spend less on transportation and eliminate 401(k) contributions, for example — so you'll need less money day-to-day.

That sounds reasonable on the surface, but many retirees find that their expenses don't actually decrease when they retire. In fact, they may even grow. Freed from the 9-to-5 grind but still feeling energetic and healthy, many people use the early years of retirement to indulge in all the fun activities they put off while working and raising a family. These people may need to plan on replacing 100% or more of their preretirement income. One other thing to keep in mind: Lower-income people tend to need a replacement rate that's closer to 100%, since they usually have fewer areas where they can cut spending.

### The Goal: Save 10% to 15% of Your Current Income

Often, you'll see recommendations to save somewhere between 10% and 15% of your income for retirement. That's not a random number. Researchers from Boston College's Center for Retirement

## Use Conservative Estimates

How can you ensure you'll have sufficient funds to last your entire retirement? So many of the variables used to calculate this amount seem uncertain. If you're concerned about running out of money during retirement, you need to be very conservative with your assumptions. Some tips to consider include:

- **Assume your retirement income needs to be at least 100% of your current income.** Most rules of thumb indicate you'll need between 70% and 100%, but figure on at least 100% to be safe. Nowadays, retirees want to travel, pursue hobbies, and live an active lifestyle, which generally means you'll need more money.
- **Add a few years to your life expectancy.** You should probably plan on living until at least age 85 or 90. If your family has a history of longevity, add a few more years to these figures.
- **Reduce your estimates of Social Security benefits.** While Social Security is currently in sound financial condition, that is expected to change after all the baby boomers retire. To be safe, count on benefits that are somewhat less than estimates, and don't plan on adjustments for inflation.
- **Cut back on living expenses now.** This has a two-fold impact on your retirement. First, it frees

up money to set aside for retirement. Second, you'll get used to a lower standard of living, which should also reduce your expected lifestyle for retirement.

- **Reach retirement with no debt.** Mortgage and consumer debt payments consume a significant portion of most people's income. Pay off all those debts and you'll significantly reduce your cost of living.
- **Forget about early retirement.** Saving enough to last from age 65 to age 85 or 90 is a difficult task. Trying to retire at age 55 or 60 is just not practical for most individuals, unless you are willing to significantly reduce your lifestyle. Working a few more years can go a long way in helping to fund your retirement.
- **Consider working during retirement.** Especially during the early years of retirement, you should consider working at least on a part-time basis.
- **Plan on taking conservative withdrawals from your retirement assets.** Don't plan on taking out more than 3% to 4% of your balance annually. Your funds should last for decades with that level of withdrawal. ■■■

Research found that saving 10% of income starting at age 25 meant that a person could retire at age 65 with a 70% replacement rate. Start saving later, and you'll need to save more — wait until age 45, and you'll need to set aside more than a quarter of your income. That's just not realistic for most people. If you're young and not sure about what your retirement lifestyle will really look like, give yourself a solid foundation by setting a saving target in the 10% to 15% range. That will position you for success.

### The Goal: Your Personal Retirement Number

Rules of thumb are just that —

rules of thumb. You'll see a lot of them out there. But the important thing is to use those numbers as a guide to develop your own personal retirement number, which should consider how you want to live, where you want to travel, your health, how much you want to leave to your children and charity, and more. Along with details about your current savings, you can reach a target retirement number that is achievable *and* will allow you to live the lifestyle you want. Please call if you'd like to discuss this in more detail. ■■■

## News and Announcements

### From the Thurman Household

Levi is doing fairly well. He swam in the state swim meet this year. He swam well, and we're proud of his effort. We're pulling for great grades this last semester. He plans on attending OCCC next year.

We went snowboarding in Winter Park over spring break. I say we; he went snowboarding and I stayed at the bottom of the slopes and read books. Unfortunately, he broke his thumb on day two trying a double jump. This required surgery, and he now has pins in his thumb and is not a happy camper about it. Hopefully, in six weeks it will all be better.

After six and a half years of work, my book is finally out: *The All-Weather Retirement Portfolio: Your post-retirement investment guide to a worry free income for life*. Details coming soon!

Life is good,

*Randy Thurman, CFP®, CPA/PFS*

### From the Alexander Household

At St. Luke's United Methodist Church, our challenge for 2015 is to do something for the first time. My husband, Kerry, and I decided to take our sons, Jackson (10) and Luke (8) on an expedition to the Galápagos Islands to celebrate our birthdays.

We chose to travel with Lindblad Expeditions because they focus on conservation through eco-tourism. We visited seven islands and were amazed at the natural beauty. We hiked and snorkeled almost every day and attended fascinating lectures given by the naturalists and photography instructors. We visited a sugar cane farm and the Charles Darwin Research Center breeding program for giant tortoises.

We loved watching Jackson and Luke interact with other passengers and experience nature, especially the animals. We observed giant tortoises, sea lions, marine and land iguanas, lava lizards, Darwin finches, blue-footed boobies, and frigate birds. We snorkeled within a few feet of sea turtles,

sharks, sea lions, rays, penguins, flightless cormorants, and colorful fish. The boys' first experience snorkeling outside of a swimming pool was in the open ocean. Above all, we enjoyed having uninterrupted family time.

I believe that travel expands your horizons and you see the world and other people differently. For me, it has resulted in a profound gratitude for my relationships. I'm grateful that Kerry and I were able to experience the Galápagos for the first time with Jackson and Luke.

*Carol Ringrose Alexander,  
CFP®, AIF®, CDFA™*

### From the Flinton Household

Swimming lessons, zoo trips, and outdoor activities of every variety; spring is truly in the air. I love the changing of the seasons, as I view it as a metaphor for life. Each season brings about necessary change and preparation for the next. Recognizing how the bitter starvation of winter is necessary to bring forth new flourishing beauty of spring is probably something we all can relate in our own lives.

As I continue to evaluate the person I want to be for myself, my family, and others, I recognized the things that I must starve in order to make room for future growth. Yet I'm sure we can all look back with pride on the soil preparation that we have already completed to make room for the planting of new seeds and beauty.

My hope for you is to enjoy each season of life, as I firmly believe that there is a greater purpose in the making. We are each given just a small section of land to care for, but together we are caring for the whole of creation. If each of us will care for our section as best we can during every season, together we will create a beautiful landscape for everyone to enjoy.

Enjoy the season,

*Andrew Flinton, CFP®*