RETIREMENT
INVESTMENT ADVISORS, INC.

3001 United Founders Blvd.
Oklahoma City, OK 73112
(405) 842-3443
(800) 725-4530

2952 Via Esperanza
Edmond, OK 73013
(405) 246-0404

9555 Lebanon Road
Suite 302
Frisco, TX 75035
(972) 377-2850

www.TheRetirementPath.com

left to right: Joe Bowie, Andrew Flinton, Brenda C. Bolander, Carol Ringrose Alexander, Randy Thurman, and Chad Rudy

Financial Briefs

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Retirement Pitfalls for Baby Boomers

Since the first baby boomer retiree started collecting Social Security payments in 2007, millions more members of this influential generation have said goodbye to the workforce and hello to what they undoubtedly hope is a long and enjoyable retirement. Currently, as many as 10,000 baby boomers are retiring every day, according to statistics from the Pew Research Center.

Unfortunately, not all of those eager retirees are totally prepared for their golden years. These unprepared boomers face some big retirement challenges. Fortunately, many of them are surmountable, provided you know what to watch out for. Here are five big retirement pitfalls baby boomers need to guard against.

Retiring Too Soon

Boomers have seen a lot of changes in the retirement landscape over the course of their lives. Many plan to rely on a mix of pensions, personal savings, and Social Security to support themselves in retirement. Unfortunately for some, that three-legged stool may be wobbly, failing to provide them with the income they need for decades to come.

A lot of boomers are aware of the gap between their retirement needs and what they have saved. In fact, Pew's study found that 60% plan to delay retirement because they can't afford to stop working. The remaining 40% may be in a better place financially than their peers. Or they may not have given retirement much thought yet. Not carefully projecting your retirement income can lead some people to retire too early, only to find out a few years later that their money doesn't go as far as they hoped. Smart planning can help avoid this pitfall.

Spending Too Much

After decades of working, many boomers are eager to spend their retirements indulging in the hobbies and adventures they've put off over the years. Given that today's older adults are healthier than ever before, it's not unusual to find retirees living very active — and very expensive — lifestyles. That's great in

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Retirement Withdrawal Rates

When planning for retirement, most people are focused on how much they need to save. They tend to spend less time thinking about how they'll make their nest egg last once they stop working.

Here are some important things to know about retirement withdrawal rates to make your savings last.

The 4% Rule

To avoid the danger of draining your savings, you need a plan. That means knowing how much you can withdraw from your portfolio every year. This is called your retirement withdrawal rate. There's actually a pretty simple rule of thumb you can use to estimate how much you can safely take from your savings. It's called the 4% rule.

The 4% rule says that you can withdraw roughly 4% of your portfolio every year and have enough money to last for a 30-year retirement (assuming you are invested in a 60/40 mix of large-cap stocks and intermediate-term government bonds). For example, if you had a total retirement portfolio of $1 million when you retire at 65, you could withdraw about $40,000 every year and have enough money to last until you turned 95.

Combined with Social Security and pension income, your 4% withdrawal rate could provide you with a respectable, though not necessarily lavish, income. If you wanted to enjoy an annual income in the six figures in retirement, you'd have to save quite a bit more.

Does the 4% Rule Matter?

There's a lot to be said for the

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Retirement Pitfalls

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many ways, but boomers who want to get out and see the world run the risk of draining their bank accounts too soon. That doesn't mean you have to curtail your dreams, but it does mean you should plan for them. If an around-the-world cruise is on the agenda, make sure you've budgeted for it.

Not Being Smart about Social Security

Sixty-five percent of Social Security recipients get at least half of their income from the program. Even those who are less dependent on Social Security checks still count on that money to get them through retirement. It's an especially valuable source of income since your Social Security payments are consistent and adjusted for inflation.

For those reasons, it's especially important to make smart decisions about when to take your benefits. If you start your claim early, you could lose out on thousands of dollars over your lifetime. Generally, it's better to delay benefits for as long as possible, though there may be times when an early claim makes sense. Given how complicated Social Security can be, it's often best to talk to an expert about how to get the most out of the program.

Not Planning for Healthcare Costs

A 2014 *Financial Advisor* magazine survey found that 62% of baby boomers are terrified of healthcare costs in retirement, while 72% said it was their number-one retirement concern. They have good reason to be scared. One study found that healthcare costs will eat up 67% of older boomers' lifetime Social Security benefits. Younger boomers may end up spending 90% of their Social Security on health costs. While it can be hard to predict exactly how much you'll need to spend in this area, you can manage the costs by setting aside funds for healthcare (perhaps in an health savings account), purchasing long-term-care insurance, and taking steps to stay healthy.

Not Emotionally Preparing for Retirement

One of the biggest retirement pitfalls for boomers has nothing to do with money. Rather, it has to do with planning for the emotional changes that come with retirement. Particularly if your life revolves around work, the transition to retirement years can be difficult. While thinking about whether you have enough money to retire is important, you should also think about how you plan to fill your days once you stop working. If you and your spouse are suddenly in the house all day together, that can also be an adjustment.

Before you hand in your notice, look into volunteer work, part-time jobs, and social activities that can fill your days. You may even consider a retirement dry run — taking a few weeks or months off from your job and living as if you were retired to see how you like it.

Make sure you avoid any potential retirement pitfalls by calling to discuss your plan.

Do You Really Need 70%?

A general retirement planning rule of thumb indicates that you'll need 70% to 80% of your preretirement income. Many estimates now indicate that may be too little for those who want to live an active retirement lifestyle. But when you realize how much you need to save, it's tempting to question whether you really need even 70% of your preretirement income.

First, you should prepare a detailed analysis of your expected expenses after retirement. Sure, some expenses will decrease, typically commuting, work-related expenses, savings amounts, and possibly taxes. But other expenses are likely to go up, including travel, entertainment, and healthcare. How much you will need depends in large part on how you plan to spend your retirement years.

Keep in mind, however, that things seldom go as planned. How can you help ensure that your expenses will be lower? Consider these tips:

- **Pay off your mortgage.** Mortgage payments often consume 30% or more of an individual's gross income. Eliminating this expense can drastically reduce income needed for retirement. If you can't pay off your mortgage, consider selling your home and purchasing a smaller one for cash. Not only will you eliminate the mortgage payment, but a smaller home often results in lower utility bills, property taxes, and maintenance costs.
- **Get rid of other debts.** It's not unusual for consumer debt payments to equal 10% to 20% of an individual's take-home pay. Try to enter retirement debt free.
- **Keep your automobile.** Instead of purchasing a new car every couple of years, keep your current car for as long as it's in good working order. That will eliminate car payments from your retirement budget.
- **Look for ways to reduce travel and leisure expenses.** Look for and use senior discounts. Plan activities for nonpeak times, when rates may be lower.
- **Consider relocating.** The cost of living varies significantly from city to city and state to state. You may be able to reduce your living expenses substantially by moving to another locale. However, this is more than a financial decision. You also need to decide whether you want to move away from family, friends, and familiar surroundings.
- **Work at least part-time.** If you still don't have sufficient funds to support yourself during retirement, consider working at least part-time. Even a small amount of annual earnings can help significantly in funding your retirement.

Withdrawal Rates

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4% rule, but it's not the be-all and end-all of retirement planning. In fact, some retirement experts have said that today's retirees should forget about the 4% rule, or at least apply it with caution. Low interest rates are one reason, because they mean that retirees aren't earning as much on their relatively safe investments (like government bonds) as they would if they'd retired a couple of decades ago (when the 4% rule was first proposed).

Another problem is what is called sequence of returns risk. Basically, the 4% rule assumes you earn relatively stable average returns throughout your retirement. Unfortunately, that's not how the real world works. Returns fluctuate from year to year. If you hit a bad patch in the early years of retirement, the value of your portfolio may fall, and you may never be able to make up the loss.

Finally, there is something called the sequence of consumption risk. The 4% guideline assumes your spending is relatively steady throughout retirement. But recent studies indicate that's not the case for most retirees. You're likely to spend more money in the early years of retirement (when you're still relatively young and active), less in the middle years of retirement, and more in the final years of your life (when healthcare costs often pile up). Spend too much in the early years, and you could find yourself running out of money in later years.

A Guideline, Not a Rule

Rather than treating a 4% retirement withdrawal rate as a hard-and-fast rule, it's better to think of it as a starting point. Thinking about living on 4% of your portfolio every year is a good way to get a rough idea of how far your retirement dollars will go. But by itself, it won't be enough. To really determine how much you can withdraw from your savings every year, please call to discuss this in more detail.

Scary Retirement Statistics

As a nation, we're woefully unprepared for retirement. The tough reality is that you might not be as prepared for retirement as you think. Here are five scary retirement statistics that should help drive home the importance of planning for your future today.

Many People Aren't Confident They'll Be Able to Retire

Only 22% of people surveyed by the Employee Benefits Research Institute in 2015 said they were confident of their ability to retire. Roughly half said they either weren't at all confident or were not too confident in their financial future. Another survey found that 74% of people were worried about having enough money when they retired (Source: CNBC, March 2015).

There's Good Reason for That Lack of Confidence

Many people simply haven't saved that much — or in some cases, anything — for the future. Nearly one-third of Americans have nothing saved for retirement, according to data from the Federal Reserve, including over half of individuals under the age of 30. And 23% of people on the cusp of retirement — those between the ages of 40 and 59 — have no retirement savings (Source: "The Reality of the Retirement Crisis," Center for American Progress, January 2015).

The Reason Many Have Trouble Saving

Most people know they should be saving for retirement, but they find it hard to do so. Perhaps they are among the 77 million Americans who don't have access to a 401(k), pension, or similar retirement plan at work. In other words, fully half of workers in the U.S. aren't getting any help from their employer when it comes to retirement (Source: CNBC, July 2015). While there are savings options if you don't have a 401(k), like an IRA, they require more work on your part to set up, and the amount you can save is less ($5,500 in an IRA versus $18,000 in a 401(k) plan). Among those who do have access to a 401(k) plan, 19% don't take advantage of it.

Retirement Is Going to Cost More Than You Think

Many retirement experts say you should plan on replacing between 70% and 80% of your pre-retirement income once you stop working. But if you want to travel a lot, indulge in expensive hobbies, or are paying tuition for your children's or grandchildren's college education, your replacement rate may be closer to 100%, at least in the early years.

The fact that many people enter their golden years with debt only compounds the problem, as many people's retirement projections assume that they'll no longer have a mortgage or other debt in retirement. Yet four out of five households that are nearing retirement do have debt, according to statistics from the Social Security Administration, and the average amount owed is $120,871.

Then There's Healthcare

The average 65-year-old couple retiring today can expect to spend $266,589 on health insurance costs in retirement, assuming they're covered by Medicare and a supplemental insurance policy. That cost rises to $394,954 if you include copays, dental costs, out-of-pocket expenses, and other bills. Yet those are expenses many haven't budgeted for. There's also the matter of long-term care. Many people are living longer today, but they often require some assistance as they age. The average annual cost of a stay in an assisted-living facility is $43,200. The bills are even more burdensome if you end up in a nursing home, which costs an average of $91,250 per year for a private room (Source: Genworth, 2015).

Hopefully, these statistics will serve as a wake-up call. If you have been putting off retirement planning, please call.

News and Announcements

From the Alexander Household

I find it helpful to set aside time to review the previous year and look ahead. For my annual review, I've narrowed the process to just a few questions: What went well this year? What didn't? What am I working toward?

From my review, I realized that the most crucial improvement I made in 2015 is the utilization of the *Five Minute Journal* (www.fiveminutejournal.com). I've used gratitude journals on and off for years, but I find the *Five Minute Journal* to be more beneficial. In the morning, I write:

- I am grateful for … (list three)
- What would make today great? (list three)
- Daily Affirmation

And then at the end of the day:

- Three amazing things that happened today…
- How could I have made today better?

These questions help me to start the day with a plan, cultivate gratitude and utilize introspection. I've found that this format makes it easy for me to do this consistently. The biggest difference for me is the increased level of productivity and unexpected sense of peace that has resulted from this daily practice.

Best wishes for 2016!

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

From the Flinton Household

As a new year gets underway, I am once again reminded how happy I am to be able to work in this profession, this calling. I know it's trite to say you have the greatest job in the world, but I am lucky to echo this often-tired phrase. Each day, each week, and each year, I reflect on the work that we do and the people we are fortunate to work with, and I cannot help but smile. Even when times are tough, I am grateful for an incredible group of clients who make my work so rewarding and enjoyable. I can honestly say that each of you make my life continually more enjoyable and fulfilled than I ever thought possible. Little did I know the lessons that I would garner and the wisdom I would glean while working with such incredible families. This past year in particular has been an affirmation to the work that we do, through all the introductions to family and friends that our firm has received. While it's often said that the greatest compliment is the referral of a friend or a family member, I can tell you it's true. So this month isn't about the kids or the family, but rather a genuine "Thank You." Without such a wonderful group of clients, my life wouldn't be what it is today, my contentment wouldn't be what it is today, and I wouldn't be fulfilling God's purpose in my life, like I am today.

Have a wonderful month,

Andrew Flinton, CFP®

From the Bolander Household

Happy New Year! A new year is a great time to discover something different. The women's group at my church has started a refreshing study, Seamless, which covers the entire Bible in seven sessions and is designed to help us "understand the Bible as one complete story." Since there are study guides for both adults and teens, we invited the teen girls to join us and have incorporated some sewing projects along with the scriptural insights. The projects include basic mending and a simple design from a pattern.

Knowing how to follow a pattern is useful in all sorts of areas. Whether sewing a garment, constructing a bookcase or a house, or growing a successful business, following a proven method can improve the chances of success. A good pattern will describe the materials and skills that are required and provide detailed instructions. It is also helpful to have an experienced coach to guide you, encourage you, and to point out hidden pitfalls. A few ladies in the group are helping coach the others through the sewing projects. As it turns out, the new year is a great time to start new friendships, too.

I hope the new year is the beginning of something great for you.

Brenda C. Bolander,
CFP®, CPA/PFS