Is Your Portfolio Retirement Ready?

Patrick Carney, CFP® CRPC®

Financial Adviser

Rodgers & Associates

Determine what you currently own

- Checking and savings accounts
- CDs
- Savings bonds
- Individual stocks
- Investment accounts
- Real estate
- Personal property
- Life insurance
- Company retirement plans
- Pensions
- IRAs & Roth IRAs
- Annuities

Determine why you have what you currently own

- What was the thought process behind making the investment originally? Do those reasons still apply?
- Was this an investment you inherited?
- If you were holding cash equal to the value of XYZ stock, based on your current situation would you use that same dollar amount to buy into XYZ stock?
- How does each investment fit into your total net worth, goals and risk tolerance?

WHY?

Develop a plan

1) Determine what you'll expect to spend during retirement. If you don't know, start with what you're currently spending minus Federal and State taxes, Social Security (typically 6.2%) and Medicare taxes (typically 1.45%), 401(k) contributions, and other expenses that may end after working).

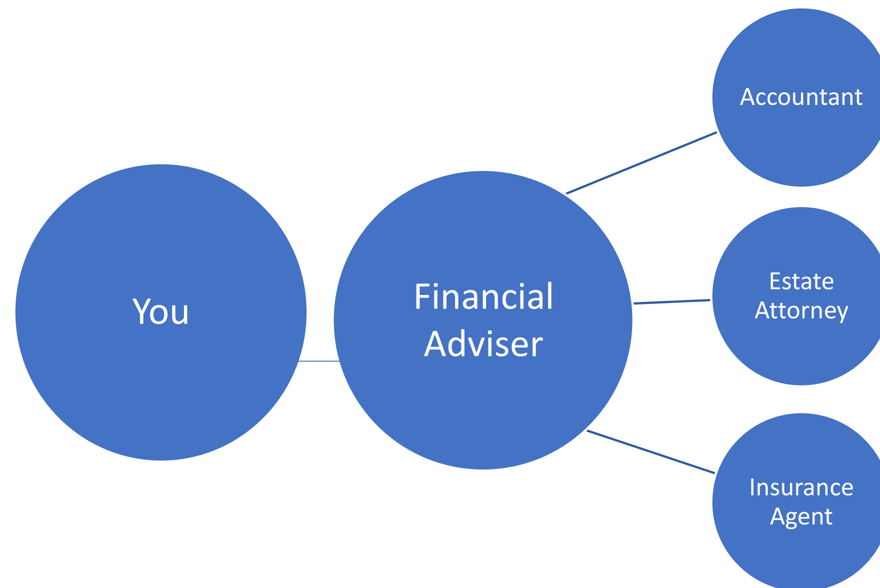
Wages	$ 100,000
- Federal Taxes	6,650
- Social Security	6,200
- Medicare	1,450
- PA Taxes	3,070
- 401(k) Contributions	26,000
- Mortgage paid off	12,000
Spending	**$ 44,630**

2) Identify the different sources of income you'll be receiving during retirement (Example: Pension, Social Security, Rental Income, etc.).

3) Figure out how much the portfolio will need to provide and determine if that withdrawal rate is sustainable (4% rule).

4) Develop an understanding of how each of your investments is treated from a tax standpoint. (Example: IRA, Roth IRA, Annuities, non-retirement accounts).

Develop your team



How it usually works

How it should work

Consolidate your assets

- The goal should be to make things as simple as possible.
- Have as few accounts (not investments) as necessary.

Example:

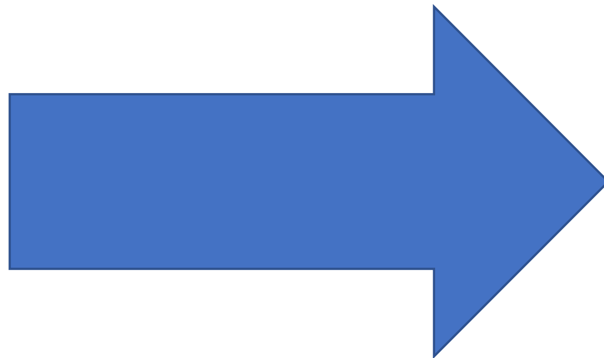
IRA at Institution A

IRA at Institution B

IRA at Institution C

401(k) Plan

Old 401(k) Plan



IRA at Institution A

Benefits:

- Provides an easily understandable picture of where you stand at that point in time.
- Provides for consolidated tax, performance reporting and asset allocation.

The 7 Deadly Sins of Retired Investors*

1) Overspending.
2) Investing too conservatively or too aggressively.
3) Failure to rebalance.
4) Poor investment selection and monitoring.
5) Concentrated stock positions.
6) Behavioral errors.
7) Ignoring the importance of taxes and Social Security.

* There are way more than 7.

1) Overspending

- To determine what you're capable of sustainably spending multiply the value of your portfolio by 4%.
- Then add your various sources of income (Social Security, Pensions, etc.).
- Subtract your taxes.

Example:

Portfolio Value $1,000,000 x 4%	$40,000
+ Social Security	$21,600
+ Pension	$10,000
- Taxes	$6,000
Total Sustainable Spending =	**$65,600**

2) Investing too conservatively or aggressively

Overly Conservative

- A common misbelief is that when you retire you should only own conservative investments.
- With interest rates as low as they currently are, investing only in CDs and bonds may not allow your income to keep pace with inflation.
- Some people will be retired for almost as long as they were working.

Overly Aggressive

- While some people are working, they will often invest aggressively to try to grow their accounts to accomplish their goals. Sometimes they won't reduce this risk as they're nearing or in retirement.
- When you reach the finish line, stop sprinting, you've already won!

3) Failure to rebalance

- Rebalancing is a way to adjust your portfolio to maintain the proper level of risk.
- As a side benefit, rebalancing can sometimes occur at moments when stocks or bonds are potentially overvalued or undervalued.
- Following a rebalancing plan can take the emotion out of trading.

Rebalancing Philosophies

- Tactical Rebalancing – Rebalancing based on a belief that a particular type of investment will begin to outperform other areas.
- Scheduled Rebalancing – For example, annual or quarterly rebalancing.
- Need-based Rebalancing – Continually monitor the portfolio and rebalance when the portfolio moves out of an acceptable range (i.e. 5%).

4) Poor Investment Selection and Monitoring

- Have written criteria ahead of time that you plan to follow.
- Don’t make decisions based solely on recent performance.
- After making the investments, continue to monitor their progress. Do the original reasons you made the investment still apply or has the situation changed?
- Determine your sell criteria and rigorously apply it (easier said than done).

5) Concentrated Stock Positions

We define a concentrated stock position as an investment in a single company that represents more than 10% of the value of your investable assets.

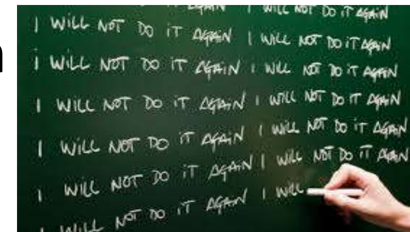
Common ways investors accumulate concentrated stock positions:

- Employer Stock
- Inherited investments
- “Pet Stocks” (i.e. “I love my iPhone so the company stock must be a great investment” or “Electric cars are the future, XYZ stock can only go up”).

Can be catastrophic to a financial plan if the company goes out of business.

6) Behavioral Errors

- Confirmation Bias – The tendency to search for, interpret, focus on and remember information in a way that confirms one's preconceptions.
- Recency Bias – Believing that whatever has been happening very recently is likely to occur in the future.
- IKEA Effect – The tendency to place higher value on objects they assemble themselves, such as IKEA furniture (or investment portfolios), regardless of the quality of the end result.
- Post-purchase rationalization – The tendency to persuade oneself through rational argument that a purchase was a good value.
- Ambiguity effect – The tendency to avoid options for which information makes the probability seem unknown.



7) Ignoring the importance of taxes and Social Security

- Social Security Solutions, Inc. published a 2016 paper that found combining Social Security claiming strategies with tax efficient withdrawal strategies on average could provide for an additional three years of living expenses for retirees.
- In Vanguard's September 2016 White Paper "Quantifying Vanguard Advisor's Alpha®" they estimated that using a financial adviser to implement tax-efficient withdrawal strategies and asset location strategies could add between 0% and 1.85% to an investor's annual returns (total value of an adviser estimated to be around 3% per year).
- By waiting to collect Social Security, your monthly benefit can in some cases be between 75% to 85% higher at age 70 than it is at age 62.

Example:

Someone born in 1957 (currently age 60)

Benefit at age 62 - $961 a month

Benefit at full retirement age (66 and 6 months) - $1,327

Benefit at age 70 - $1,697

Benefit at age 70 is $738 more or 77% higher than collecting at 62

Questions?

Rodgers & Associates

WEALTH ADVISERS

Our Next Seminar

Investing 101
June 23, 2021 at 6:00 pm

Stocks, bonds, mutual funds, ETFs, REITs, Alpha, Beta, Volatility, Standard Deviation, Maturity, Duration, Asset Allocation, Capital Gains, Tax Adjusted Return – WOW, this is just a few of the many investment terms. There is a lot of jargon surrounding investments and it can be intimidating! This seminar will cover basic terminology and simple rules to help you build wealth through investing. Clients, please invite your children and grandchildren, high school age and above, for an investment learning experience!