Capital Stewards
FINANCIAL ADVISORY

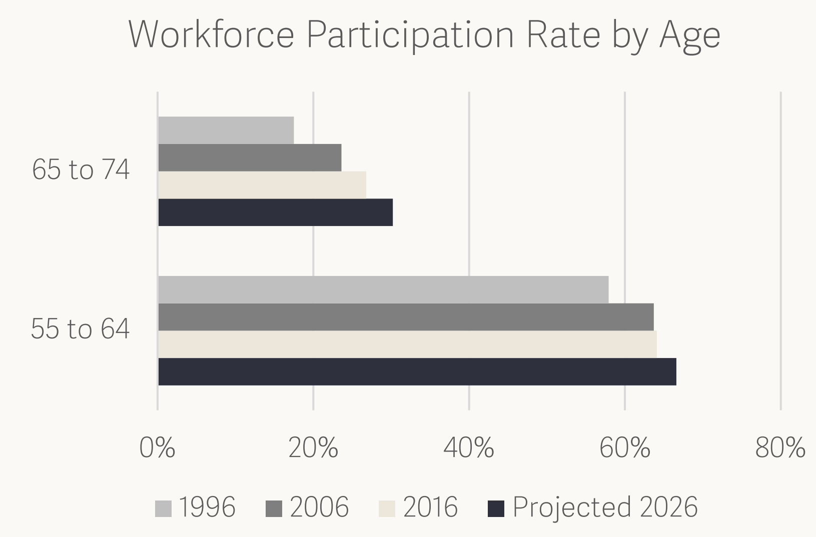
2024 Guide to Retirement Planning

thecapitalstewards.com

What is my ideal "retirement"?

Planning for retirement is a huge step in life. The Employee Benefit Research Institute surveys Americans annually about retirement and only 28% are "very confident" in their retirement plan. That means the vast majority...72%...have questions. You are not alone trying to solve the retirement puzzle. In this guide we cover some of the most important issues to consider as you plan for retirement.

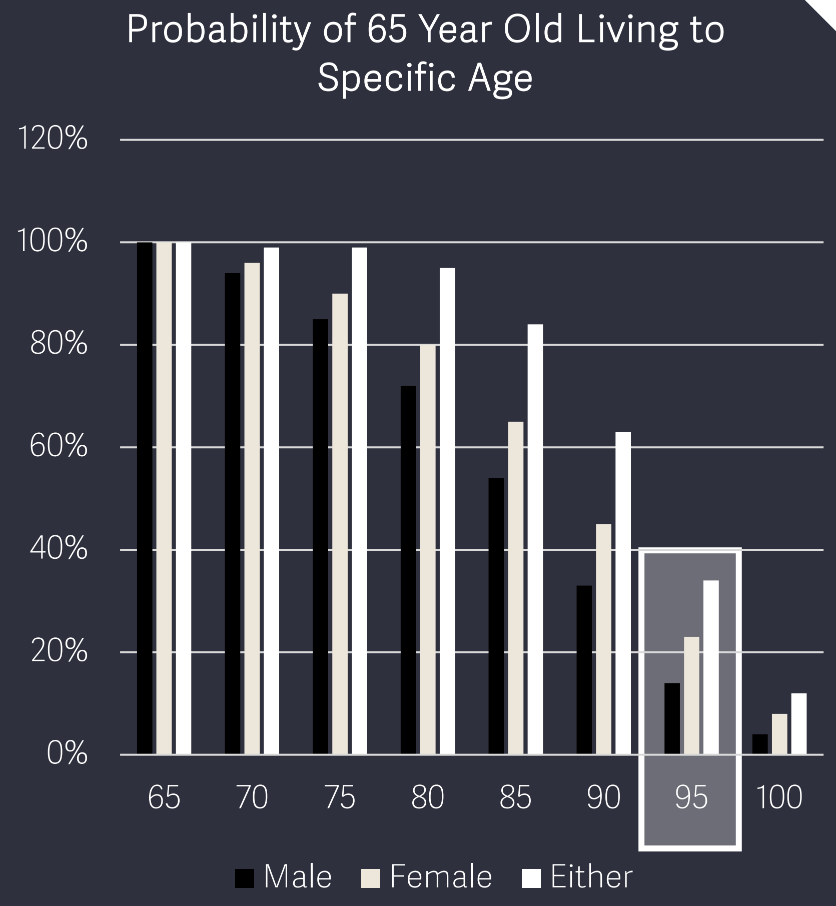
Before we dive into how much you might need to save or how to buy health insurance, it is important to step back. Think about the big picture. Retirement is different for everyone. The first question to ask is "What is my ideal retirement."



Many of our clients continue to work during retirement. Retirees typically take a step back, work less hours and gain flexibility to do what they love. But some love their careers. They continue to consult, teach, join a non-profit or work at a local church. According to the Bureau of Labor and Statistics, workforce participation among adults over age 55 has risen in each of the last three decades. The trend is expected to continue. Also, most continue working because they enjoy being engaged, learning new things and find purpose in work; not because they "need the money." Consider how you want to spend your most precious resource, your time, as you plan for retirement.

Sources: Bureau of Labor and Statistics, Employee Benefit Research Institute, Greenwald Research

What is my "number?"



Sources:
J.P. Morgan Chase, "Three Retirement Spending Surprises"
American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, http://www.longevityillustrator.org/, (accessed August 2022).

Everyone needs a different level of assets to generate enough income for retirement. Your portfolio target will be determined by your life expectancy and spending needs.

We find that pre-retirees often underestimate the number of years their assets may need to support the family. The Social Security Administration expects that, on average, men who are 65 will live until they are 83. Women will live until 85. However, by definition, "average" means that many will live much longer. **If you are married, the likelihood that you or your spouse live into your mid-90s is greater than 30%.** We believe that you should expect to live 30 years or more in retirement. That means your portfolio and outside income must support you for a very long time.

When you think about spending, don't immediately assume the "rules of thumb" apply. Research from Chase Bank shows that spending tends to increase in the years leading up to and immediately following retirement. Retirees relocate, travel, renovate and take advantage of their free time. Think about it as if **every day was a Saturday.** As retirement goes on, spending on travel and dining out drops, but healthcare spending increases. Overall spending generally declines in the later years of retirement. Your specific goals for retirement will factor heavily in determining your spending. Lastly, consider whether you are comfortable adjusting your spending based on your level of assets, or whether you should save more to adjust your asset levels to meet your spending goals.

How do I maximize Social Security benefits?

As you probably expect, waiting to claim benefits at 67 or 70 results in significantly higher benefit payouts, especially if you live into your mid or late 90s.

Considering your health is the first step in determining whether to claim social security at 62 or later. To "break-even" on the time period between age 62 and 67 or 70, you will need to receive the increased level of social security benefits for 7-10 years or more. As we mentioned earlier, statistics show that you will likely live well into your 80s, but this is not true for everyone. If you have a health concern, then it may make sense to claim benefits earlier. Also, note that we used the maximum social security benefit level in this analysis, so your own results may be different depending on your contributions to social security over your lifetime.

In addition to considering your health, it's important to make your decision around social security based on your entire financial picture. You may earn more from social security by waiting, but **depleting your portfolio and paying higher taxes** on distributions from retirement accounts in the interim **may have a more detrimental effect on your retirement assets than the increased benefit payout is worth**. The "right age" to claim social security benefits depends on your health, asset level and tax situation and is different for everyone. Considering these variables will help you make a well-informed social security benefit decision.

Sources: Social Security Administration, Capital Stewards Analysis, Table shows figures assuming maximum contributions to social security during working years, based on 2022 data.

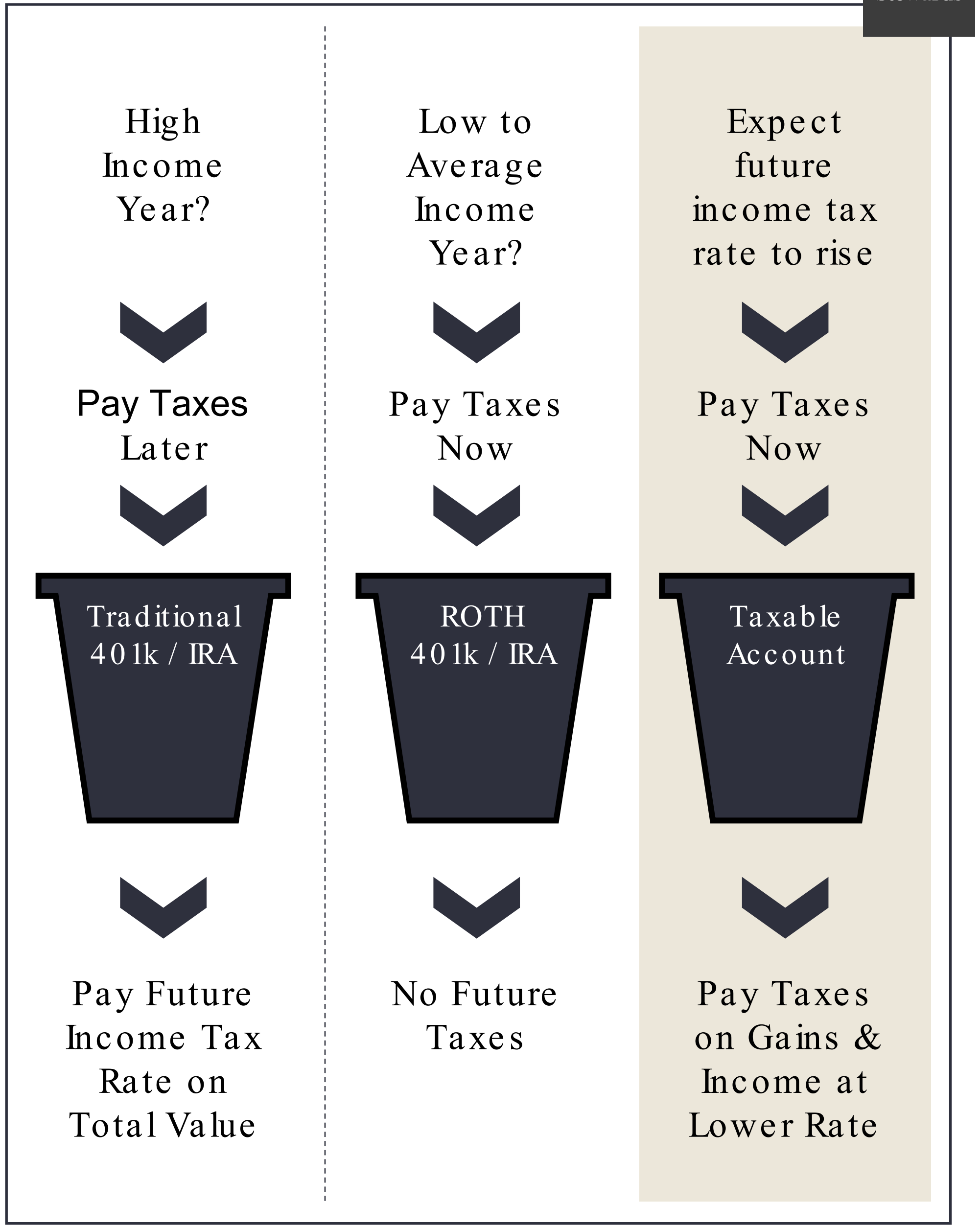
Total Extra Dollars Received by Waiting to Claim Benefits
(compared to claiming at 62)

	Life Expectancy		
	85	90	95
Claim @ 67	$115,584	$187,824	$260,064
Claim @ 70	$109,800	$219,600	$329,400

Reducing Taxes Is A Long-term Game

High-income earners often "max-out" their traditional retirement account contributions without considering the long-term consequences. Instead, account contributions should be determined based on current and future tax rates. We think about retirement accounts as "buckets." As you approach retirement you should evaluate which bucket(s) you should "fill up" with savings based on your current and expected future tax rate. Over time, you should fill the buckets in the most tax efficient manner. In retirement, similar calculations will govern the most tax-efficient way to drawdown assets, or "empty your buckets."

In years where your income is relatively high, contributing to the traditional IRA/401k bucket may be most valuable. However, in years where your income is relatively low, ROTH contributions may be more valuable long-term. In retirement years with low income, withdrawals from traditional IRAs and 401Ks help manage taxes. Conversely, if your income spikes, withdrawing ROTH assets will help reduce your total tax bill. It's usually important to have assets in each bucket to effectively manage taxes long-term.



Medicare is alphabet soup. How do I cover healthcare?

Before we discuss Medicare, it is important to consider early retirement healthcare. If you choose to retire before age 65, you must have retirement healthcare coverage from an employer or purchase private insurance, often through the exchange. Private policies for a healthy 60 year-old generally cost more than $10,000 annually, so make sure to include that in your budget.

When you turn 65, you have a choice to make. Your first option is purchasing Medicare and its parts separately. The second option is to buy an all-encompassing Medicare Advantage Plan from an insurer. The choice between the two will depend on your expected level of out-of-pocket expenses, your tolerance for working through a set network of doctors and your desire for additional non-Medicare benefits like dental and vision coverage. The chart at the right breaks down the two options in more detail.

Also, keep in mind that the cost of original Medicare plans varies with your taxable income. It is important to manage your taxable income throughout retirement to prevent your premiums from increasing.

Sources:
Milliman, Healthcare Costs in Retirement Whitepaper, 2021 Update.
Medicare.gov

Option 1: Original Medicare

Part A

Hospital services

(Medicare Pays 80%, You Pay 20%)

Part B

Lab Services, Outpatient, Preventative Doctor Visits

(Medicare Pays 80%, You Pay 20%)

Part D

Prescription Drug Coverage

(Copays vary by drug, copay not covered by supplemental plan)

Supplemental / “Medigap”

Covers some or all of the out-of-pocket costs from Part A, & B

(Coverage depends on desired premium payment)

No Networks / referrals and usually lower deductibles

Option 2: Medicare Advantage Plan (Part C)

Medicare Advantage Plan

Works like private insurance and often purchased from a private carrier like United HealthCare or Blue Cross Blue Shield

Bundles Part A, B, D and a Supplemental Plan into one policy

Often offers additional services like vision and dental insurance, but requires that you use “in-network” doctors like private insurance

Required to cap-out-of-pocket expenses at $7550

Investing for Retirement

Goals Before Solutions

We discuss investing last intentionally. Often conversations start with mutual funds, annuities or other "investment solutions" without defining the goals or the problem the "investment solution" is intended to solve. When you begin building your investment plan for retirement, start with your goals for retirement and then choose investments that meet your goals.

Understand Risk

One common mistake we see often is that clients hit retirement and seek to "minimize volatility" or "focus on income" by owning mostly bonds. Instead of focusing on common rules of thumb, focus on managing the real risk in retirement. **The real risk is that you run out of money or do not accomplish your other financial goals.** A well constructed retirement portfolio should produce a total return, from both capital gains and income, that provides a high degree of confidence in accomplishing your objectives. Typically, portfolios should include a diversified mix of stocks, bonds, real estate and other assets.

Dynamic Withdrawal Rates

Lastly, we often talk with clients about "safe withdrawal rates." Common assumptions suggest that withdrawing 3%-4% is "safe" for retirement. Those rates may work in your situation, or they may not. With average market returns, 3%-4% withdrawal rates will likely produce portfolio growth over the long-term. In this case, you could have withdrawn more if desired. Alternatively, starting with 6%-7% may exhaust your assets too early. We recommend a dynamic approach to determining withdrawal rates that varies slightly over time based on your tax situation and investment performance.

Sources: Using 30 -year historical returns and a portfolio consisting of 60% S&P500 and 40% Barclays Aggregate Bond Index for withdrawal rates. .

Would You Like A Complimentary Retirement Assessment?

Schedule a call to start a conversation with us.

We will gather basic information and then sit down with you to discuss. You'll leave with a one-page plan of recommendations to implement.

Click here to schedule a call to get started.

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What Happens During the Call?

We ask questions to learn about your situation and your goals

We introduce the simple tools we use in our free assessment

We discuss any questions you have about us and how we serve our clients