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Legacy Planner

Retirement • Income • Medicare

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- 1 How to Get a "Paycheck" in Retirement
- 3 Case Study:
A Lifetime Paycheck You Can Count On
Ask the Professional:
What Happens to My Account If I Die?
- 4 Local Walking Trails

Photo by Ray Loth

Local Walking Trails



Photos by Ray Loth

Menominee Park, Oshkosh

Riggs Park, Ripon

Trestle Trail, Neenah

These are just a few of the beautiful walking trails that our area has to offer. While winter weather may decrease the inclination to exercise and enjoy the outdoors, it is by no means less beneficial. Just some of the benefits of regular exercise include: stimulating brain chemicals

that can make you feel happier; help reduce depression, stress, and anxiety; benefit cognitive function; promote better sleep; improve confidence and self-esteem; increase energy, help control weight; combat health conditions and diseases; and improve relationships!

How to Get a "Paycheck" in Retirement

By Raymond Loth

Clearly one of the main objectives of your nest egg is to provide income during retirement. However, structuring the proper amount of income ...and then giving yourself the license to start spending your savings, can present challenges. In addition to the mathematical and emotional hurdles of now providing yourself with a paycheck, other concerns include: inflation, market risk, longevity risk,* sequence** of returns, regulation (tax) risk, health/long term care, loss of spouse, etc.

In some cases such concern can result in not only worry, but also in *not fully enjoying your desired retirement*. Your "paycheck" may be too small to enjoy the dreams, experiences, travel, entertainment, family time, etc. that your nest egg allows for.

"Tapping your accounts. One of the biggest challenges facing retirees is figuring out how much they can withdraw ...and still have enough to maintain their standard of living if they live into their 90s (or beyond). This prospect is so daunting that some retirees are overly frugal, scrimping ...even when they have plenty of money in their nest eggs." —*"How to Create Income for Life" by Sandra Block (cover) Kiplinger's Personal Finance, 10/2020*

Others however may have the *opposite problem*. This problem may be correlated with the change from pension plans to 401k's. It is what the *Wall Street Journal (WSJ)* called:

"...the illusion of wealth. When workers look at their retirement savings, they are often reassured by the size of the total balance....However, when they are told that the lump sum translates into roughly \$500 a month in retirement, those savings seem much less adequate.... To help people overcome the illusion of wealth, the Secure Act* (by Congress in 12/2019) mandates that retirement plan providers display participants' savings in terms of projected monthly income..."** —*"A Closer Look at the Secure Act" by Shlomo Benartzi, WSJ, 9/14/2020*

So clearly a paycheck needs to be based on a well thought out budget.^ A long-term sustainable paycheck should be designed to cover primary expenses for your life expectancy. Such planning will help to avoid depleting your nest egg too quickly, and at the same time will enable you to recognize available funds for those secondary desires like _____ (You fill it in!).

In determining the size, manner, and timing of your paycheck, various factors include: health, partial retirement,

"How to Get a 'Paycheck'..." continues on the next page.

"How to Get a 'Paycheck...' continued...

spousal circumstances, debt, future purchases/sales, etc. However, let's look at two very general situations:

(1) Smaller nest eggs. Providing a "paycheck" (beyond Social Security) may not leave much leftover funds. This is not necessarily a problem, or a threat to enjoying retirement, as it is really a matter of good budgeting and self-control. You will likely want conservative accounts with dependable growth that avoids risk. After possibly a phased retirement with part-time work, it makes sense to start tapping savings by initially using only earned interest from safe accounts. In time a measured drawdown of principle will likely be needed.

(2) Larger estates. This will likely allow for a larger "paycheck" and more secondary expenses. Many people create a paycheck that is not only guaranteed, but one that is guaranteed for life. Guaranteed lifetime income has long been recognized as the **cornerstone of financially worry-free retirement**. It is the principle upon which Social Security is based as is the corporate pension. These are both forms of an annuity. Guaranteed lifetime income gives you more freedom to enjoy, spend, invest, etc. your other assets. Glenn Ruffenach, in a "Wealth Management" Journal Report (WSJ, 11/23/2020) called this a "two-bucket approach." With your annuity income in bucket #1 covering your basic income needs for the rest of your life, then if bucket #2 (for "stuff and experiences") runs out, "that's okay; you still have bucket No. 1."

"Economists have shown that under a range of assumptions ... a deferred income annuity policy makes people better off. ...the economic logic behind them is so compelling..." —"Can annuities become a bigger contributor to retirement security?" by Martin Neil Baily and Benjamin H. Harris, *Economic Studies at Brookings Institute*, 6/2019

"Economists have long considered such annuities one of the most effective vehicles for maximizing the income you can draw from retirement accounts while simultaneously guaranteeing income for life." —Walter Updegrave, *Wall Street Journal*, 5/5,6/2014

The idea either way is to build a plan that (1) harmonizes with your circumstances and objectives, and (2) you feel good about and comfortable with. Let me now touch on a few additional options for your "retirement paycheck."

• PENSION OPTIONS

These employees have various income options, or even for a lump sum payout from the company pension to an IRA ("pension buyout"). Each of these have their respective benefits and are worth reviewing. Sometimes it is an easy decision, other times you have to rely on your gut!

If pensions assets were to earn 7.2% a year, the \$2.5 trillion held by the 25 largest U.S. pension plans as of 2018 would fall about \$780 billion short...The shortfall would double if the assets were to earn the more conservative 5.6%..." —"Pandemic Squeezes Pension Managers" by Heather Gillers, *Wall Street Journal*, 12/10/2020

• THE 4% WITHDRAWAL RULE

(See "Case Study" page 3.) 4% is a common suggestion for a safe annual withdrawal percentage, all with the hope that your money will not run out during your lifespan. Some assert that 4% may be too much, and of course longevity, investment returns, and volatility are big factors. A key point however is that this income is not guaranteed. Therefore, the longer one lives, the less likely the income will last.

"an investment-only approach is not necessarily the most efficient way to provide a steady income in retirement when lifespan and investment returns are unknown." — William F. Sharpe, Professor of Finance, Emeritus at Stanford School of Business and a 1990 Nobel Prize winner in economics

• GUARANTEED LIFETIME INCOME BENEFIT RIDERS

(See "Case Study" page 3.) Many companies now offer riders on annuity accounts to guarantee lifetime income based on (1) initial account value, (2) length of time before starting income, and (3) your age. These have noteworthy advantages over some of the other options here listed, and may be worth considering, depending on your circumstances. This does not involve "annuitization," therefore you retain access and growth provisions respecting your account value, which is also paid to your beneficiaries at death.

• ANNUITIZATION

This is a less common but still available way to create a customized income stream. Because "annuitization" forfeits the full account value in exchange for the guaranteed income stream, people often prefer other choices.

• 401k & IRA ROLLOVERS

Rollovers (direct transfers) can be done with either of these asset types to gain additional benefits without creating a taxable event.

I hope that you found some helpful, practical, thought-provoking, and even motivating points in this article for yourself or someone that you love. Please feel free to call me at (920) 233-0033 if I can be of assistance to you. —Ray Loth

* Longevity Risk is considered a risk multiplier because the longer you live, the more likely you'll experience the other risks.

** Sequence: a major loss of asset value at age 68 is far worse for you than when you are 88.

*** The Secure Act also removed some barriers that have prevented companies from offering annuities in 401k plans, thus making it easier for people to consider these products." —Benartzi, *WSJ*

^ Please see the enclosure, and our 2017 Newsletter "What is Retirement Planning" on our website www.clpwi.com under "Click here to see our Newsletters."

Please note that this information is only intended to demonstrate general concepts, which are incomplete & subject to company specific account information.

"The most important part of every plan is planning on your plan not going according to plan."

—Morgan Housel, "The Psychology of Money"

Case Study

A Lifetime Paycheck You Can Count On

A man in his early 60s came to me a number of years ago seeking some options for a portion of his 401k. He was healthy, active, and wanted to create some plans for future lifetime income beyond Social Security that he could rely on. He decided to rollover \$150,000 to a Fixed Indexed Annuity with a Guaranteed lifetime withdrawal benefit.* The income account, including an initial bonus, was guaranteed to compound at 7%/yr.

After 5 years, the client decided to start the income, which was \$13,916*/yr. as expected. **That withdrawal actually equals 9.3% of his original \$150,000—every year for life! Guaranteed.** Another excellent feature is the spousal income benefit.* Even after 4 years of income totaling \$55,664, if the owner died the spouse would still be entitled to \$176,271 for income purposes!

So what if the client decided not to do this, but **instead use the 4% withdrawal method** from a traditional risk based account? This approach suggests that 4% probably is a safe annual withdrawal and hopefully you won't run out of money during your lifetime. Well, \$13,916 as a 4% withdrawal would require an account value of \$347,900 after only 5 years!. That means that the initial \$150,000 **would have to average over 18% EACH YEAR** for the 5 years to facilitate the 4% withdrawal of \$13,916—not likely, and definitely not guaranteed. The account that we set up however, (1) GUARANTEED the \$13,916/yr. income amount, and (2) GUARANTEED that it would last as long as you live. **Which approach would you prefer?**

The benefits and value of these types of accounts are self-evident. Also, (unlike pension plans) this type of account allows additional withdrawals for life changes. The fact is that in an era where (1) people are living longer (2) traditional pension plans are either non-existent or vastly underfunded (3) people desire a middle ground between bank stagnation and market risk— these individually owned guaranteed lifetime income accounts are an excellent option for many retirees.

"Offering these types of annuities in 401(k) plans is a way for savers to have access to a high quality product, one that is generally going to be a lot better than they might purchase in the retail space." —David Blanchett, head of retirement research for Morningstar

* Information and estimates are only intended to demonstrate general concepts available, and are incomplete and subject to company specific information, and current rate offerings.

"There are companies with great customer service... and then there are companies with SUPER GREAT customer service. And that's: Collier Legacy Planning."

— Omro Client

Ask the Professional...

What happens to my account if I die?

The simple and clear answer is that **your designated beneficiary(-ies) will receive your remaining full account value, as previously directed by you**, with no surrender charges or penalties.* This is also true of the primary account value of accounts with guaranteed lifetime income riders. "Annuitized" accounts, like pensions, will be paid to beneficiary(-ies) as directed when started.

Annuities, like life insurance, with named beneficiary(-ies) **do not go through probate**. This money will likely be some of the first funds that your family will receive. The beneficiary will be liable for taxes due on the account, although there is no income tax on life insurance proceeds.** Most companies that I work with, have a check out the door within about 10 days of receiving proper paperwork.

We will assist your beneficiaries with the claim process. We prepare, send in, track the paperwork, and communicate with your family throughout the process until completion. All they need to do is (1) decide on payout method and tax withholdings, (2) provide a death certificate and (3) review and sign their name(s).

While this is a good question to address, you can be sure that these accounts are not designed to shortchange your estate in any way. Please call with any questions or to review who your stated beneficiaries are. —Ray Loth

* I do not work with companies/accounts which require beneficiaries to wait out the original duration of the account to avoid a penalty. Such requirements are extremely rare.

** Please consult with your accountant on these matters as we are not able to provide tax advice and there are exceptions and requirements to certain tax laws.

Photo: Ray Loth