



THE SOCIETY FOR FINANCIAL AWARENESS
DC Metropolitan Chapter www.dcsofa.org

7 THINGS YOU NEED TO KNOW WHEN COUNTING DOWN TO RETIREMENT

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Successful Retirement = Preparation

- Understanding Your Target Retirement Income
- Asset Allocation
- Withdrawal Risk
- Inflation
- Rising Medical and Long-Term Care Costs
- Running out of money

Target Retirement Income

Gross Income - Sue	\$107,000
Gross Income - Bill	\$0
	\$0
Total Gross Income	\$107,000
Less	
TSP/401(k)	\$24,500
IRA	\$6,500
Social Security	\$6,634
IRA	\$6,500
Mortgage	\$0
College	\$0
Credit Cards	\$0
Debts	\$0
Tax Equivalent	\$0
Non/Qualified IRA	\$0
Roth	\$0
Total Payments	\$44,134
Target Retirement Income	<u>\$62,866</u>

PRESENT

	0	2,360	0		0
Employee	Match	Add.			
			Regular Savings	CD's	College Savings
			Savings 100,000		
					Rate Future Value
					1% 101,000
					1% 0
					1% 0
			Tax Deferred	Roth	401k & IRA
			6,500		IRA 550,000
					4% 0
					4% 68,640
					4% 926,640
			24,500		TSP 310,000
			Tax Deferred	Roth	IRA
					4% 0
					4% 22,880
					4% 318,760
			6,500		IRA 300,000
			0	0	37,500
					1,437,920

					\$107,000
Additional Information					
Sue 61-62;					
Bill 61-62					
Retirement Income Projections					
Sue	COLA	0%	Pension	\$0	
	WD	0%	Social Security	\$0	
	0%	0%	Tax Deferred	\$0	
	0%	0%	Roth	\$0	
	0%	0%	401k & IRA	\$0	
	TOTAL				\$0
Bill	COLA	0%	Pension	\$0	
	WD	0%	Social Security	\$0	
	0%	0%	Tax Deferred	\$0	
	0%	0%	Roth	\$0	
	0%	0%	IRA	\$0	
	TOTAL				\$0
W/D Rate from Cash Assets				\$0	
				\$0	
Total Income at year # 1 =				\$0	
0.0%	Target Retirement Income			\$62,866	

SUE RETIRE

Total Income		0 0 0					0					
\$107,000		Employee	Match	Add.	Regular Savings	CD's	College Savings	Rate	Future Value			
Additional Information					Savings			1%	109,369			
Sue 62-70					101,000			1%	0			
Bill 62-70								1%	0			
Retirement Income Projections												
Sue	COLA	0%	Pension	\$18,836	Sue	Tax Deferred	Roth	401k & IRA				
	WD	0%	Social Security	\$0				IRA	578,760	4%	0	
		0%	Tax Deferred	\$0						4%	93,939	
		0%	Roth	\$0			roth	68,640		4%	966,258	
		3%	401k & IRA	\$31,506					TSP	347,880		
			TOTAL	\$50,342								
Bill	COLA	0%	Pension	\$0	Bill	Tax Deferred	Roth	IRA				
	WD	0%	Social Security	\$0						4%	0	
		0%	Tax Deferred	\$0						4%	31,313	
		0%	Roth	\$0			roth	22,880		4%	314,061	
		4%	IRA	\$12,750					IRA	318,760		
			TOTAL	\$12,750								
0% W/D Rate from Cash Assets		\$0			0 0 0			Savings Type Assets Total		1,514,938		
		\$0										
Total Income at year # 8 =				\$63,092								
0.0%	Target Retirement Income	\$62,866										

Understanding the 4% withdrawal Rule

The Trinity University study (one of the most widely-cited papers in retirement planning) aims to cut through all of that complexity and boil down drawdown strategies down to a single number. If an investor withdraws a fixed percentage of their assets annually for retirement expenses, what is the likelihood that they will outlive their savings?

The 4% withdrawal rate and a 50/50 or 75/25 portfolio gives excellent portfolio success rates:

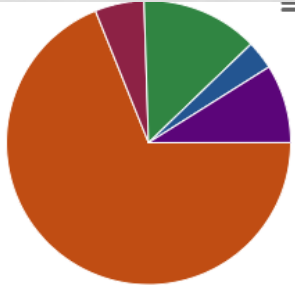
Withdrawal Rate	100/0	75/25	50/50	25/75	0/100
3%	100%	100%	100%	100%	84%
4%	98%	100%	96%	80%	35%
5%	80%	82%	67%	31%	22%
6%	62%	60%	51%	22%	11%
7%	55%	45%	22%	7%	2%
8%	44%	35%	9%	0%	0%

You need to have significant stock exposure during retirement

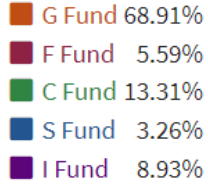
Most investors assume that in retirement, you need to become extra conservative in your investments to avoid big market losses. It turns out that the opposite is true. According to the results of this study, a 50/50 portfolio would be the minimum stock allocation to maintain a high portfolio success rate using a 4% withdrawal rate. A 75/25 portfolio could potentially have a higher portfolio success rate and end of retirement portfolio value. A 100% bond portfolio fails more than half the time using the 4% withdrawal rule.

L FUNDS ALLOCATION COMPARISON

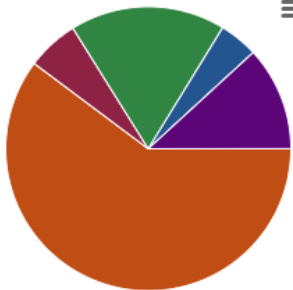
L Income



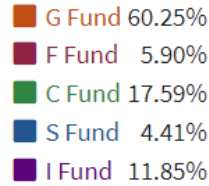
January 2024



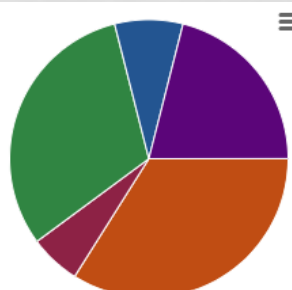
L 2025



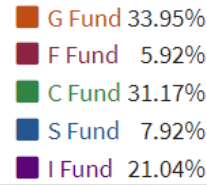
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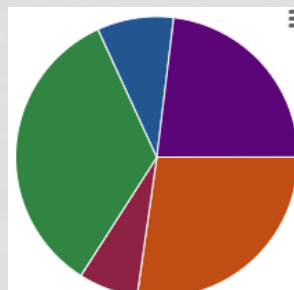
L 2030



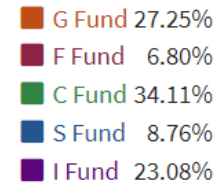
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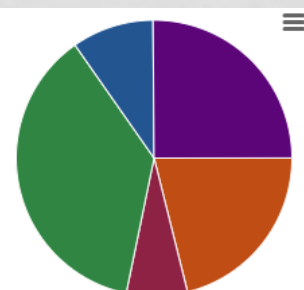
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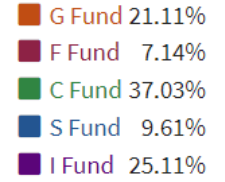
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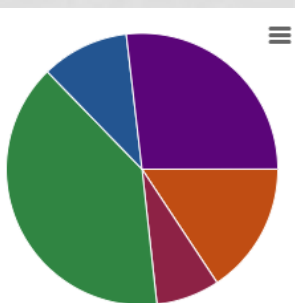
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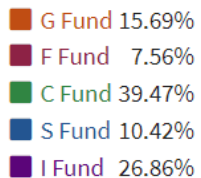
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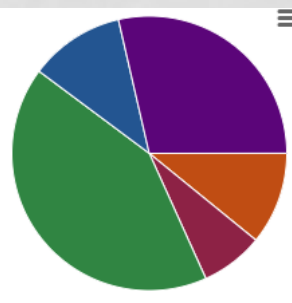
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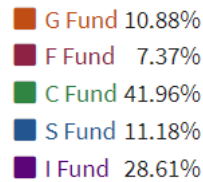
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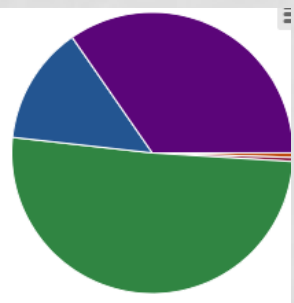
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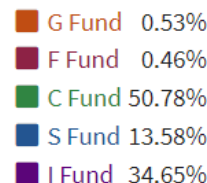
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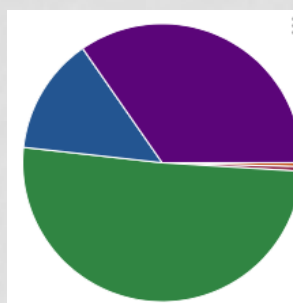
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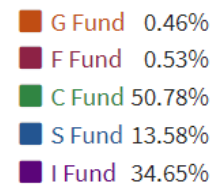
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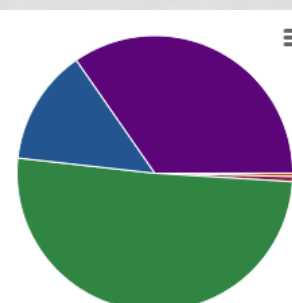
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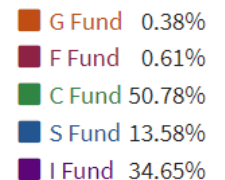
January 2024



L 2065

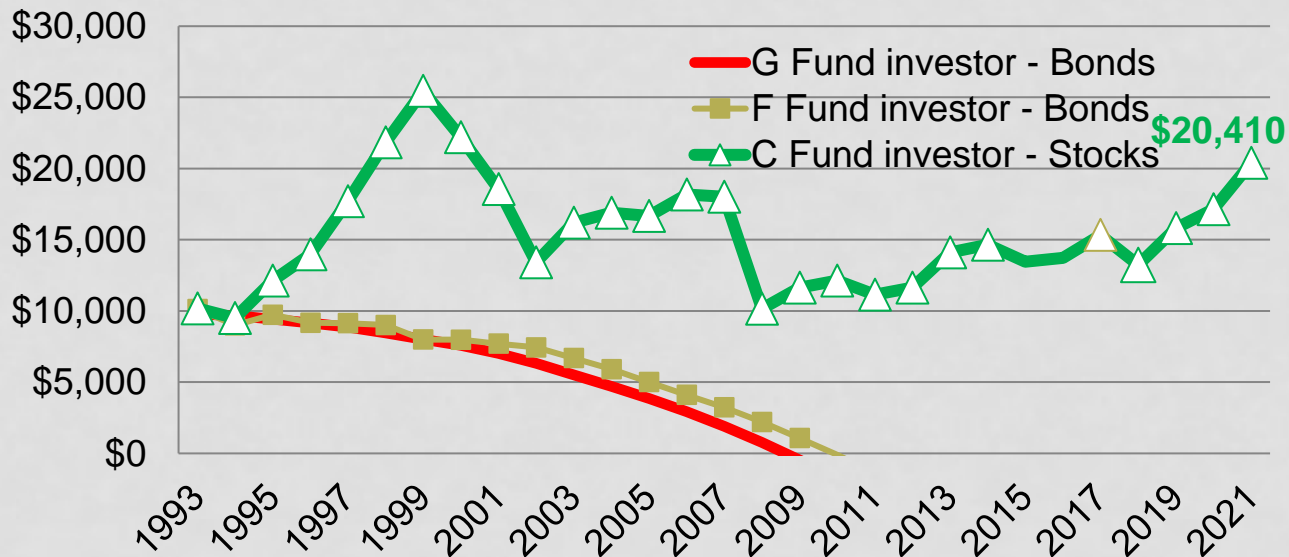


January 2024



LOSS OF PURCHASING POWER: WHAT HAPPENS WHEN YOU START SPENDING?

Example: At the beginning of 1993, retirees Bill, Jack and Mary each have \$10,000 in the TSP. They each invest in one fund: Bill in G, Jack in F and Mary in C. They annually withdraw enough to buy 2000 first class stamps (after paying taxes of 30%).



Note: This is for illustration purposes only. Past performance is no guarantee of future performance. All investments involve the risk of loss. The data assumes reinvestment of all income.

Sequence of Returns Risk

PROBLEM

Year	BOY Balance	Return	Withdrawal	EOY Balance
1973	\$1,000,000	-14.67%	\$79,713	\$785,281
1974	\$785,281	-26.31%	\$79,713	\$519,934
1975	\$519,934	37.14%	\$79,713	\$603,719
1976	\$603,719	23.81%	\$79,713	\$648,772
1977	\$648,772	- 7.19%	\$79,713	\$528,144
1978	\$528,144	6.52%	\$79,713	\$477,670
1979	\$477,670	18.45%	\$79,713	\$471,380
1980	\$471,380	32.45%	\$79,713	\$518,764
1981	\$518,764	- 4.88%	\$79,713	\$417,625
1982	\$417,625	21.50%	\$79,713	\$410,564

Year	BOY Balance	Return	Withdrawal	EOY Balance
1983	\$410,564	22.46%	\$79,713	\$405,161
1984	\$405,161	6.22%	\$79,713	\$345,691
1985	\$345,691	31.64%	\$79,713	\$350,134
1986	\$350,134	18.62%	\$79,713	\$320,774
1987	\$320,774	5.18%	\$79,713	\$253,548
1988	\$253,548	16.61%	\$79,713	\$202,710
1989	\$202,710	31.69%	\$79,713	\$161,975
1990	\$161,975	-3.10%	\$79,713	\$79,713
1991	\$79,713	30.47%	\$79,713	\$ 0
19 Yrs. Average ROR		12.98%	\$1,514,547	DEPLETED

COMPARE

1973 - 1991

1991 - 1973

Figure 2: Forward running return sequence of \$1,000,000 – S&P 500 portfolio with annual withdrawals of \$79,713
Other starting years, rate of return sequences, market indexes, and life horizons will produce different results.

Sequence of Returns Risk

PROBLEM

Year	BOY Balance	Return	Withdrawal	EOY Balance
1991	\$1,000,000	30.47%	\$79,713	\$1,200,698
1990	\$1,200,698	-3.10%	\$79,713	\$1,086,235
1989	\$1,086,235	31.69%	\$79,713	\$1,325,489
1988	\$1,325,489	16.61%	\$79,713	\$1,452,699
1987	\$1,452,699	5.18%	\$79,713	\$1,444,107
1986	\$1,444,107	18.62%	\$79,713	\$1,618,444
1985	\$1,618,444	31.84%	\$79,713	\$2,028,663
1984	\$2,028,663	6.22%	\$79,713	\$2,070,174
1983	\$2,070,174	22.46%	\$79,713	\$2,437,519
1982	\$2,437,519	21.50%	\$79,713	\$2,864,734

Year	BOY Balance	Return	Withdrawal	EOY Balance
1981	\$2,864,734	-4.88%	\$79,713	\$2,649,112
1980	\$2,649,112	32.45%	\$79,713	\$3,403,169
1979	\$3,403,169	18.45%	\$79,713	\$3,939,634
1978	\$3,939,634	6.52%	\$79,713	\$4,108,392
1977	\$4,108,392	-7.19%	\$79,713	\$3,739,017
1976	\$3,739,017	23.81%	\$79,713	\$4,530,585
1975	\$4,530,585	37.14%	\$79,713	\$6,103,925
1974	\$6,103,925	-26.31%	\$79,713	\$4,439,925
1973	\$4,439,925	-14.67%	\$79,713	\$3,719,986
19 Yrs. Average ROR		12.98%	\$1,514,547	\$3,719,986

COMPARE
1973 - 1991
1991 - 1973

Figure 3: Backward running return sequence of \$1,000,000 - S&P 500 portfolio with annual withdrawals of \$79,713
Other starting years, rate of return sequences, market indexes, and life horizons will produce different results.

Sequence Defense

SOLUTION

Year	BOY Balance	Return	Withdrawal	EOY Balance
1973	\$1,000,000	-14.67%	\$79,713	\$ 785,281
1974	\$ 785,281	-26.31%	\$ 0	\$ 578,673
1975	\$ 578,673	37.14%	\$ 0	\$ 793,593
1976	\$ 793,593	23.81%	\$79,713	\$ 883,855
1977	\$ 883,855	-7.19%	\$79,713	\$ 746,324
1978	\$ 746,324	6.52%	\$ 0	\$ 794,984
1979	\$ 794,984	18.45%	\$79,713	\$ 847,239
1980	\$ 847,239	32.45%	\$79,713	\$1,016,588
1981	\$1,016,588	-4.88%	\$79,713	\$ 891,155
1982	\$ 891,155	21.50%	\$ 0	\$1,082,754

Year	BOY Balance	Return	Withdrawal	EOY Balance
1983	\$1,082,754	22.46%	\$79,713	\$1,228,324
1984	\$1,228,324	6.22%	\$79,713	\$1,220,054
1985	\$1,220,054	31.64%	\$79,713	\$1,501,145
1986	\$1,501,145	18.62%	\$79,713	\$1,686,103
1987	\$1,686,103	5.18%	\$79,713	\$1,689,601
1988	\$1,689,601	16.61%	\$79,713	\$1,877,290
1989	\$1,877,290	31.69%	\$79,713	\$2,367,229
1990	\$2,367,229	-3.10%	\$79,713	\$2,126,603
1991	\$2,126,603	30.47%	\$ 0	\$2,892,002
19 Yrs.	Average ROR	12.98%	\$1,115,982	\$2,892,002

COMPARE

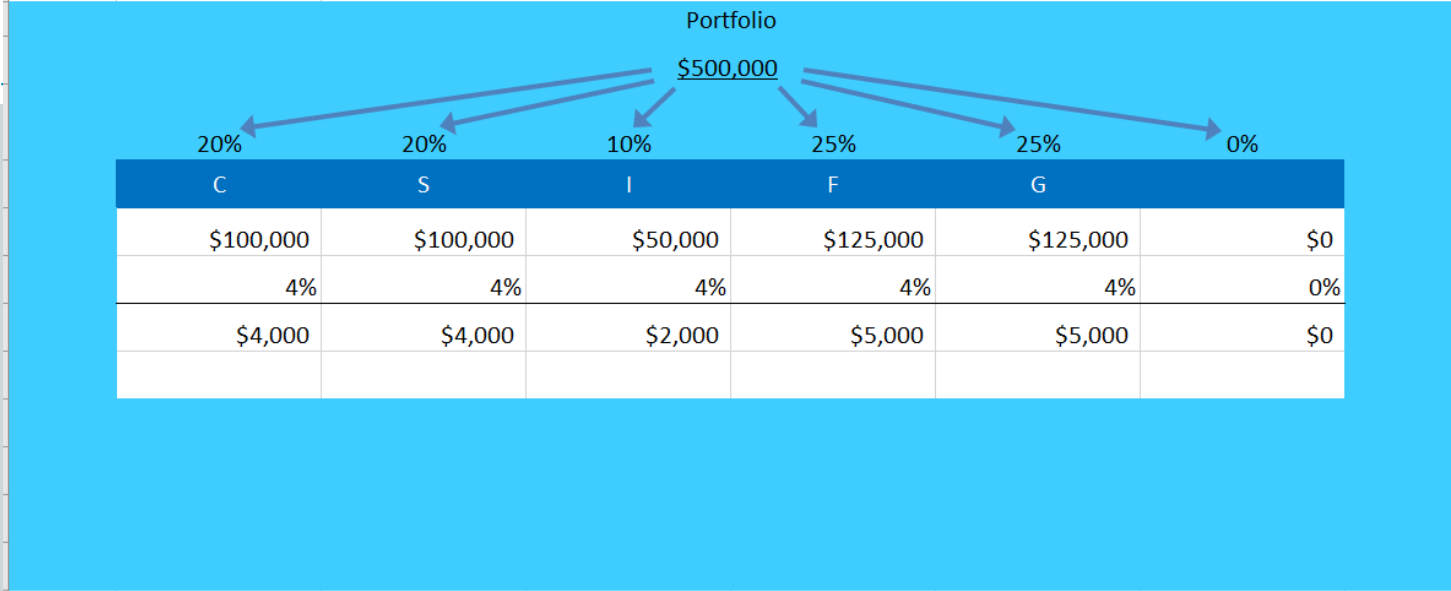
NO DEFENSE

WITH DEFENSE



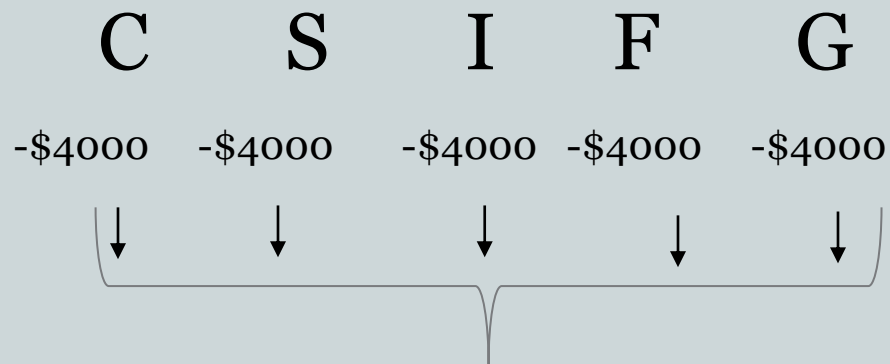
\$398,565 funded from Sequence Defense Resources. Total withdrawal of \$1,514,547.

Figure 6: Same sequence with withdrawals from portfolio in green. Sequence Defense employed following down year. Other starting years, rate of return sequences, market indexes, and life horizons will produce different results.



Avoid Selling Low

TSP --- $\$500,000 \times 4\% = \$20,000$



Forced to sell LOW!!

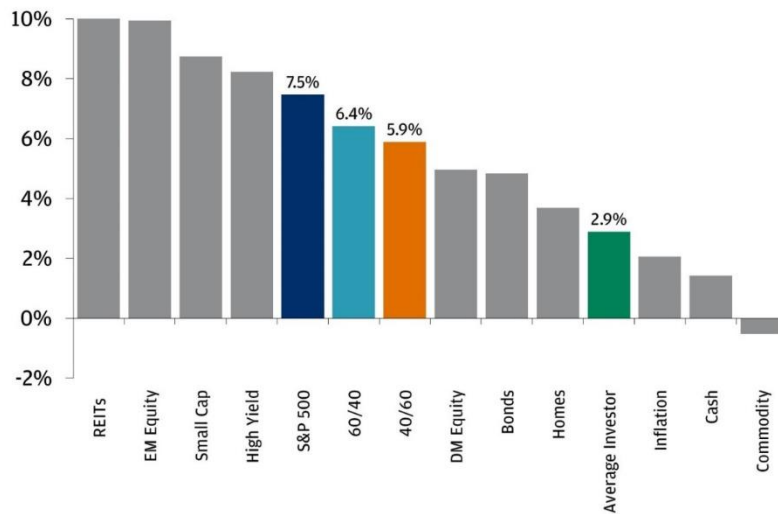
TSP Fund - 2

Year	G Fund	F Fund	C Fund	S Fund	I Fund
2022	2.98%	-12.83%	-18.13%	-26.26%	-13.94%
2018	2.91%	0.15%	-4.41%	-9.26%	-13.43%
2008	3.75%	5.45%	-36.99%	-38.32%	-42.43%
2002	5.00%	10.27%	-22.05%	-18.14%	-15.98%
2001	5.39%	8.61%	-11.94%		
2000	6.42%	11.67%	-9.14%		

3.5
%

Despite strong index returns over time, the “average investor” has underperformed a basic, indexed 60/40 portfolio by 3.5% annualized.

DIVERSIFICATION AND THE AVERAGE INVESTOR 20-year annualized return by asset class (2001 - 2020)



Source: DALBAR Inc., MSCI, NAREIT, Russell, J.P. Morgan Asset Management. Data as of December 31, 2020.

See what marginal tax bracket you fall into: Your Line 15: \$183,000 ~ So, what marginal rate are you in now?

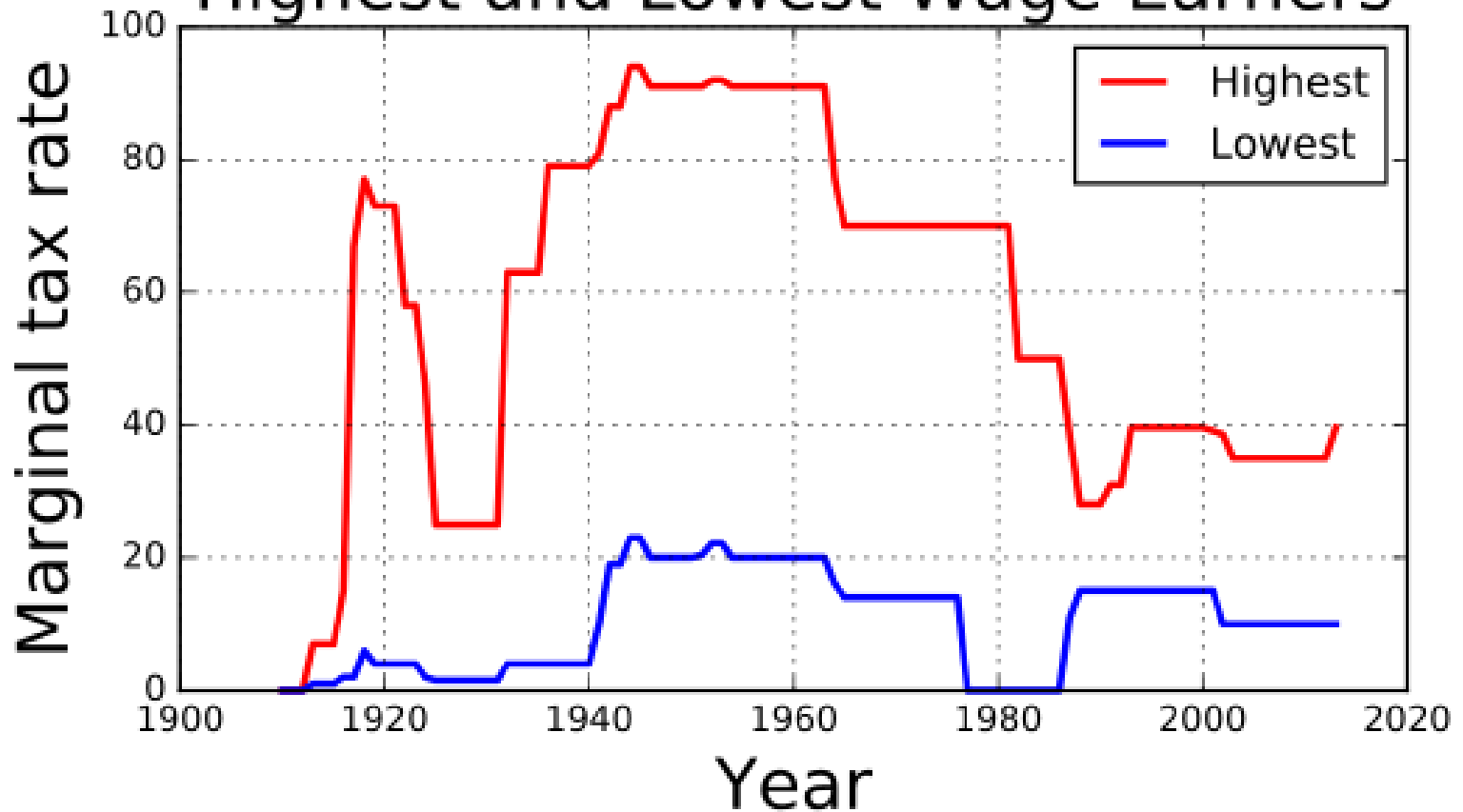
How many of you think you will be in a lower tax bracket when you retire?

Tax brackets 2023

Tax Rate	Single	Married filing jointly	Married filing separately	Head of household
10%	\$0 to \$11,000.	\$0 to \$22,000.	\$0 to \$11,000.	\$0 to \$15,700.
12%	\$11,001 to \$44,725.	\$22,001 to \$89,450.	\$11,001 to \$44,725.	\$15,701 to \$59,850.
22%	\$44,726 to \$95,375.	\$89,451 to \$190,750.	\$44,726 to \$95,375.	\$59,851 to \$95,350.
24%	\$95,376 to \$182,100.	\$190,751 to \$364,200.	\$95,376 to \$182,100.	\$95,351 to \$182,100.
32%	\$182,101 to \$231,250.	\$364,201 to \$462,500.	\$182,101 to \$231,250.	\$182,101 to \$231,250.
35%	\$231,251 to \$578,125.	\$462,501 to \$693,750.	\$231,251 to \$346,875.	\$231,251 to \$578,100.
37%	\$578,126 or more.	\$693,751 or more.	\$346,876 or more.	\$578,101 or more.

WHERE do you think taxes will be in your future? Your opinion matters

Historical Marginal Tax Rate for Highest and Lowest Wage Earners

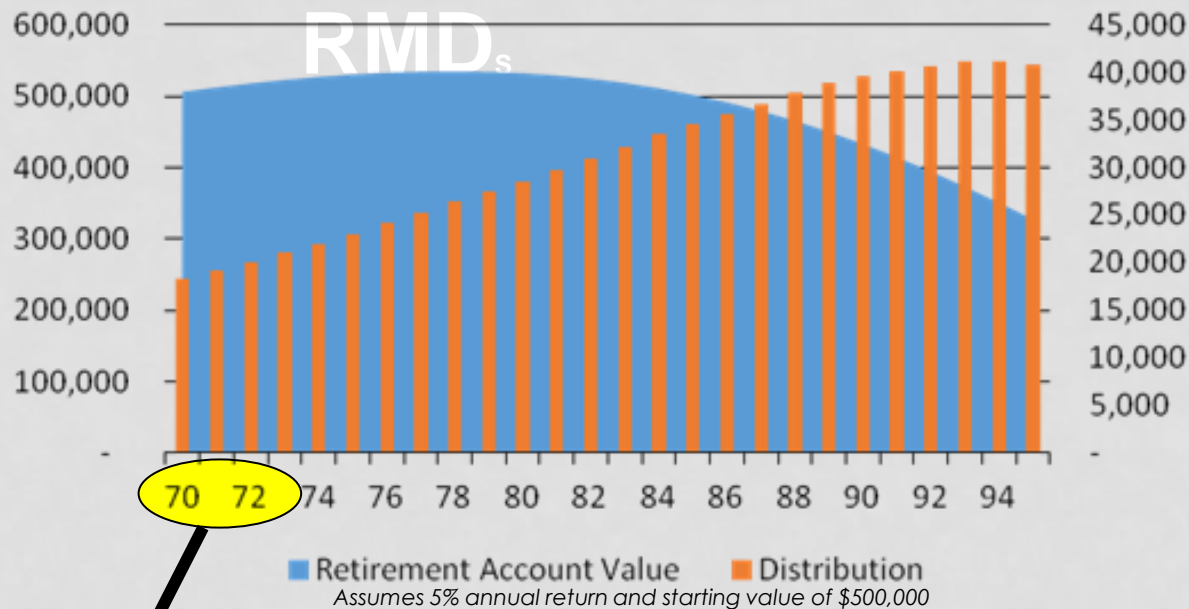


Which RMD to use?

NO RMD's for ROTH TSP/401(k)

Age	Individuals impacted	Effective Year
Age 72 (or 70 1/2)	Born 1950 or earlier	-
Age 73	Born 1951 – 1959	2023
Age 75	Born 1960 or later	2033

Effect of RMDs



AGE 70 ½...72...73

NOTE:

The age for withdrawing from retirement accounts was increased in 2020 to 72 from 70.5. (Note that the SECURE 2.0 Act will raise the age for RMDs to 73 for those who turn 72 in 2023.) Therefore, your first RMD must be taken by April 1 of the year after which you turn 72 (73 in 2023). After that your RMDs must be taken by December 31 of each year.

RMD

TSP	IRA	IRA
\$100,000	\$100,000	\$100,000
<u>x 4%</u> ↓	<u>x 4%</u> ↓	<u>x 4%</u> ↓
\$4,000	\$4,000	\$4,000

RMD

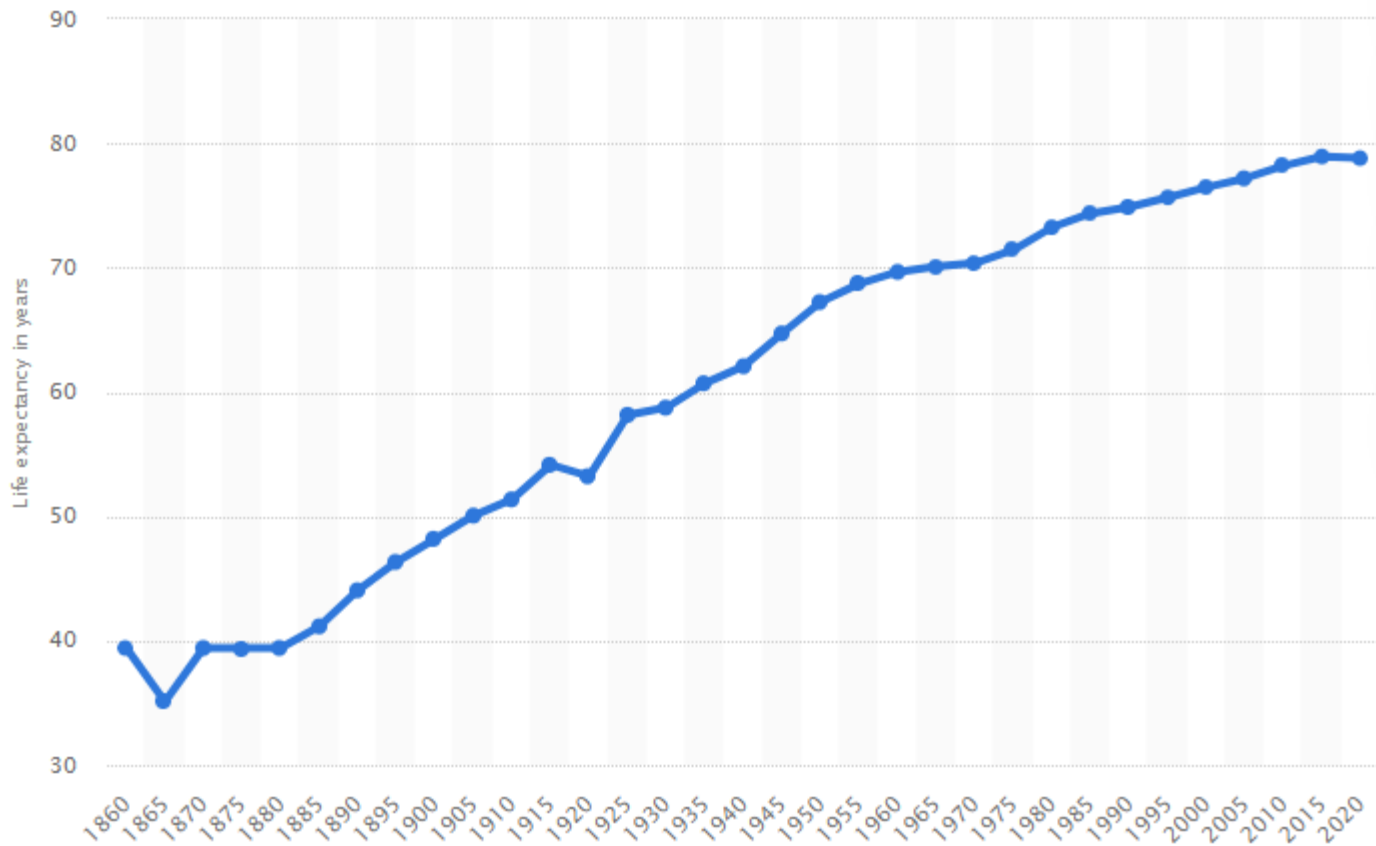
TSP	IRA	IRA
\$100,000	\$100,000	\$100,000
	<u>x 4%</u> ↓ \$12,000	↓

RMD

TSP	IRA	IRA
\$100,000	\$100,000	\$100,000
<u>x 4%</u> ↓	<u>x 4%</u> ↓	↓
\$4,000	\$12,000	

LONGEVITY

Since 1900 the global average life expectancy has more than doubled
In every country the life expectancy of women is higher than the life expectancy of men



Rising Medical and Long-Term Care Costs

National average costs of long-term care:

- \$225 a day or \$6,844 per month for a semi-private room in a nursing home
- \$253 a day or \$7,698 per month for a private room in a nursing home
- \$119 a day or \$3,628 per month for care in an assisted living facility (for a one-bedroom unit)
- \$20.50 an hour for a health aide
- \$20 an hour for homemaker services
- \$68 per day for services in an adult day health care center

The cost of long-term care depends on the type and duration of care you need, the provider you use, and where you live.

How Will You Pay for Long-Term Care?

- **Pay out-of-pocket - Self Insure**
- **Rely on government programs such as Medicare or Medicaid**
- **Buy long-term care insurance**
- **Life Insurance with LTC Rider**

Pros and Cons to Long Term Care Insurance

- Premiums are not fixed
- Underfunded policies
- If you never use it you lose it
- Healthcare inflation rate 5.3%

Select LTC rate change filings with renewal business effective dates in H1

State	Filer	Calculated premium change (\$M)	Written premium (\$M)	Approved rate change (%)*	Number of policyholders affected	Renewal business effective date
VA	Genworth Life Insurance Co. ¹	9.7	26.9	36.1	10,228	04/21/22
OH	Genworth Life Insurance Co.	9.7	14.8	65.4	6,713	03/31/22
PA	John Hancock Life Insurance Co. USA	7.5	12.7	59.1	4,760	05/09/22
TN	Genworth Life Insurance Co.	5.5	9.2	59.5	4,431	04/27/22
KY	Genworth Life Insurance Co.	5.1	12.7	39.9	4,617	03/31/22
IA	Ability Insurance Co. ^{1,2}	5.0	10.6	47.4	2,612	02/18/22
NE	Mutual of Omaha Insurance Co. ¹	4.9	4.6	107.1	2,383	01/01/22
AL	Genworth Life Insurance Co.	4.7	31.0	15.0	8,321	03/14/22
TX	Allianz Life Insurance Co. Of North America	4.6	7.5	62.2	2,821	01/29/22
NE	Ability Insurance Co. ²	4.6	8.1	56.7	2,024	01/13/22

Date compiled Aug 4, 2022

LTC = long-term care

Information collected on a best-effort basis. Rate filing information is sourced from the System for Electronic Rate and Form Filing documents.

Reflects individual long-term care rate filings for Type of Insurance LTC02I, LTC03I, LTC04I and LTC05I with renewal business effective dates between Jan. 1 and June 30, 2022. Excludes pending, disapproved and withdrawn filings; filings where rate change was zero; filings where data on the premium impacted was unavailable; filings where the disposition table was unavailable, notably in the state of Florida.

Written premium, calculated premium change, approved rate change and number of policyholders affected are based on disposition section of rate filings. Approved rate change reflects the calculated premium change divided by written premium.

Top 10 filings shown are based on calculated premium change.

*Approved rate change shown may be the ultimate increase as some states cap the amount an insurer can raise rates in a given year.

¹Adjustments made to values shown due discrepancies between disposition table and correspondence from the state insurance regulators within the filing.

²Include LTC premium changes for policies of medico Insurance Co. that have been novated over to Ability Insurance Co.

Source: S&P Global Market Intelligence

PERFECT STORM

Dealing with Finances After the Death of a Spouse

SPOUSE A
Pension \$45,000
Social Security \$35,000
TSP Withdrawal \$25,000 (\$625,000 x 4%)
TOTAL INCOME \$100,000

Scenario 1



Scenario 2



SPOUSE A DIES
Pension \$22,500
Social Security TBD* (*lesser of the two spouses ss)
TSP Withdrawal \$25,000 (\$625,000 x 4%)
TOTAL INCOME \$47,500 (plus SS)


SPOUSE A DIES PLUS LONG TERM CARE EVENT
Pension \$22,500
Social Security TBD* (*lesser of the two spouses ss)
TSP Withdrawal \$0
TOTAL INCOME \$22,500



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A wide-angle photograph of the U.S. Capitol building in Washington, D.C., taken at dusk. The building's iconic dome is illuminated from within, glowing with a warm yellow light. The sky is a mix of soft pinks, oranges, and blues. In the foreground, the paved plaza is visible, with two ornate, glowing street lamps on either side of the central path leading towards the building. The overall atmosphere is serene and majestic.

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