SOFA

THE SOCIETY FOR FINANCIAL AWARENESS

DC Metropolitan Chapter www.dcsofa.org

PLANNING vs. INVESTING

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Case Study

Risk Tolerance

You completed a risk questionnaire using advanced quantitative risk technology on March 28, 2019. The results were as follows.

On a scale of 1 to 99, with higher numbers indicating higher risk tolerance, your answers to the risk questionnaire resulted in a score of 62.

This means that over the next six months, you are comfortable risking a loss of -13% or -$64,290, in exchange for the chance of making a gain of +20% or +$98,890.

This range describes the "comfort zone" for your investments. Over the next six months, it represents a hypothetical target that you would prefer to keep your investments within. There is no guarantee any investments would perform within the range.

Investment Goals

When completing your risk questionnaire on March 28, 2019, you selected the following goals for your investments:

- ☑ *Wealth accumulation*
- ☑ *Retirement*
- ☑ *Income*

Age and Retirement Horizon

When completing your risk questionnaire on March 28, 2019, you provided the following data about your age and retirement horizon:

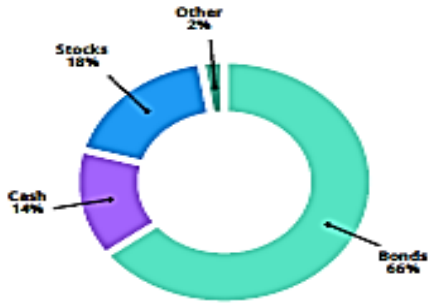
You were born in 1965. You intend to retire at age 60.

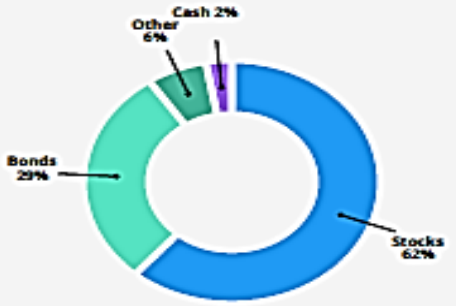
Asset Allocation

Asset classification is depicted below for the portfolio(s) in this report. The ratios depicted for Stocks, Bonds, Cash, and Other, are reflective of current value for the portfolio(s) shown, and are subject to change along with changes to the portfolio value.

Portfolio asset allocations are defined as follows:

- Stocks: Individual equities, along with equity portions of mutual funds and ETFs.
- Bonds: Individual bonds, along with fixed income portions of mutual funds and ETFs.
- Cash: Cash, Money Market funds, along with portions of mutual funds and ETFs allocated to cash.
- Other: Non-Traded REITs/DPPs, Variable Annuities and any other custom allocation or any security unrecognized by Riskalyze.





	CURRENT	TARGET
Stocks	17.95%	62.49%
Bonds	66.20%	29.46%
Cash	14.25%	2.09%
Other	1.60%	5.96%

Asset Allocation

Stocks	Bonds
84%	16%
64%	36%
20%	80%

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

Courtesy of Leap Systems

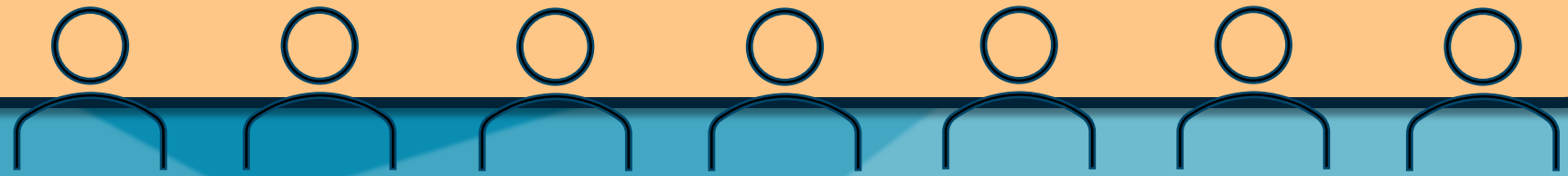
Figure 2: Forward running return sequence of $1,000,000 – S&P 500 portfolio with annual withdrawals of $79,713 Other starting years, rate of return sequences, market indexes, and life horizons will produce different results.

Average Return vs. Actual Return

Initial Balance $100,000			
Year	Annual Return	Annual Gain/(Loss)	End of Year Account Balance
1	50.00%	$50,000	$150,000
2	-50.00%	($75,000)	$75,000
3	150.00%	$112,500	$187,500
4	-50.00%	($93,750)	$93,750
Average Return	25.00%	Actual Return	-6.25%

Have you heard….

The CLOSER you get
to retirement…
The MORE
conservative
you get

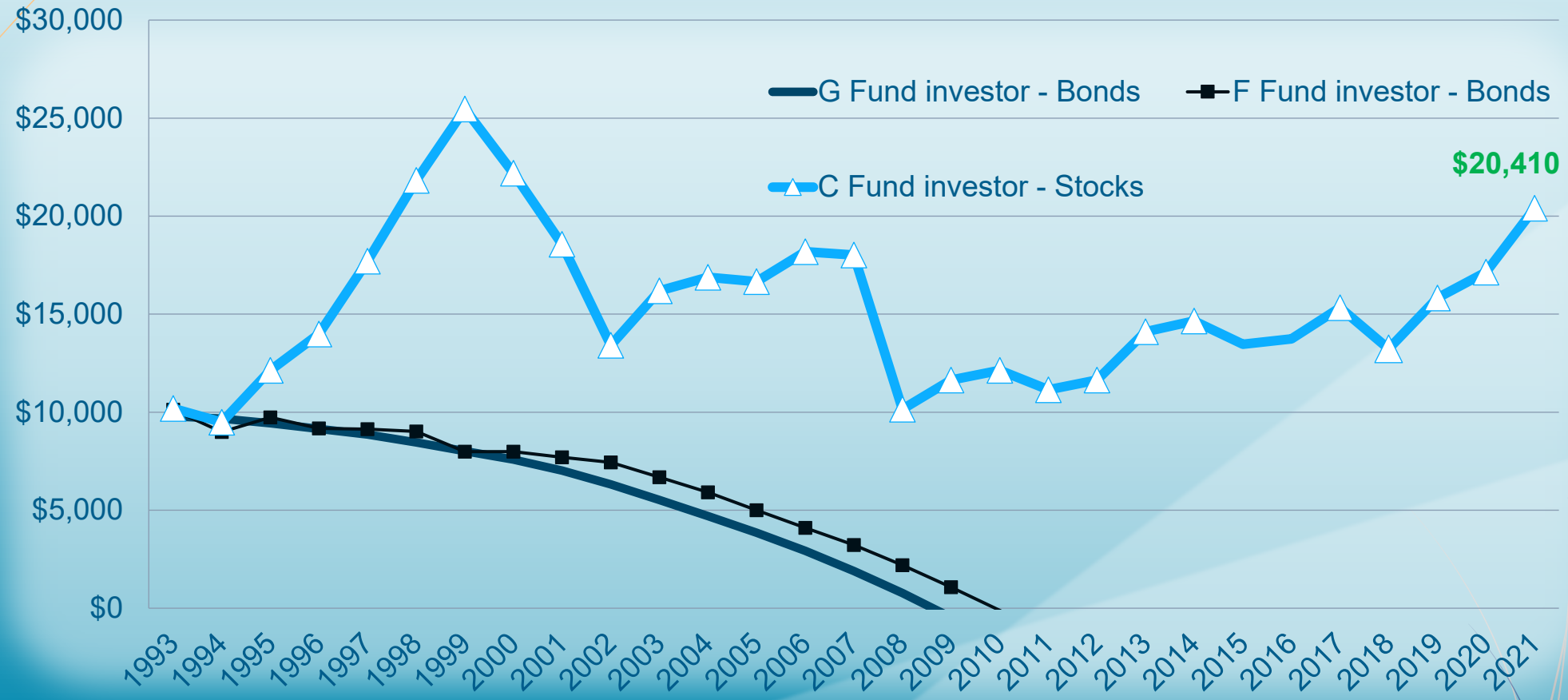


Loss of Purchasing Power:
What Happens When You Start Spending?

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%).

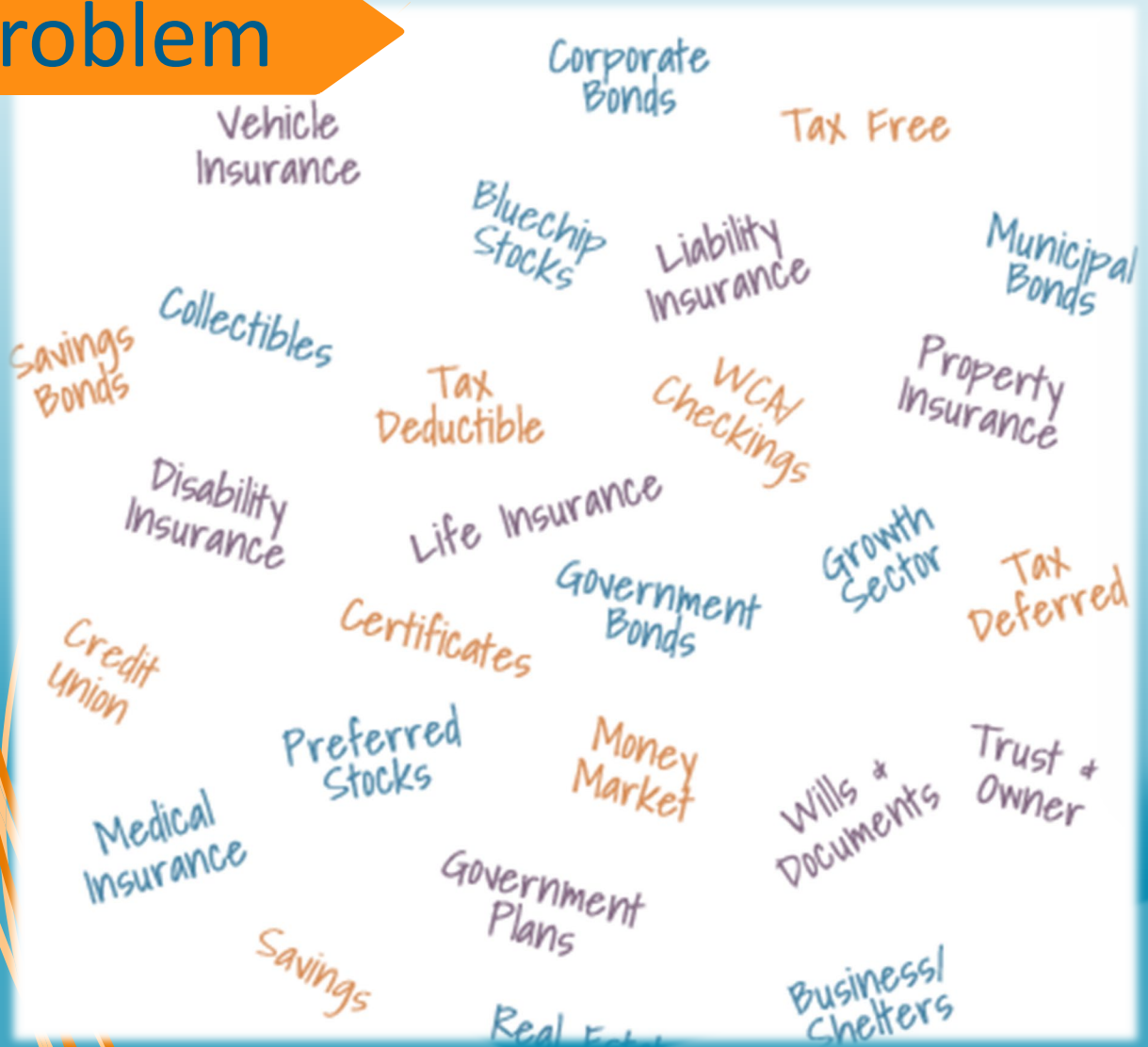


Note: This is for illustration purposes only. Past performance is no guarantee of future performance.

All investments involve the risk of loss. The data assumes reinvestment of all income.

How Most People Make Financial Decisions…

Problem



- One at a time
- At different times
- With different people
- Under different economic circumstances

This creates a financial junk drawer

Junk Drawer

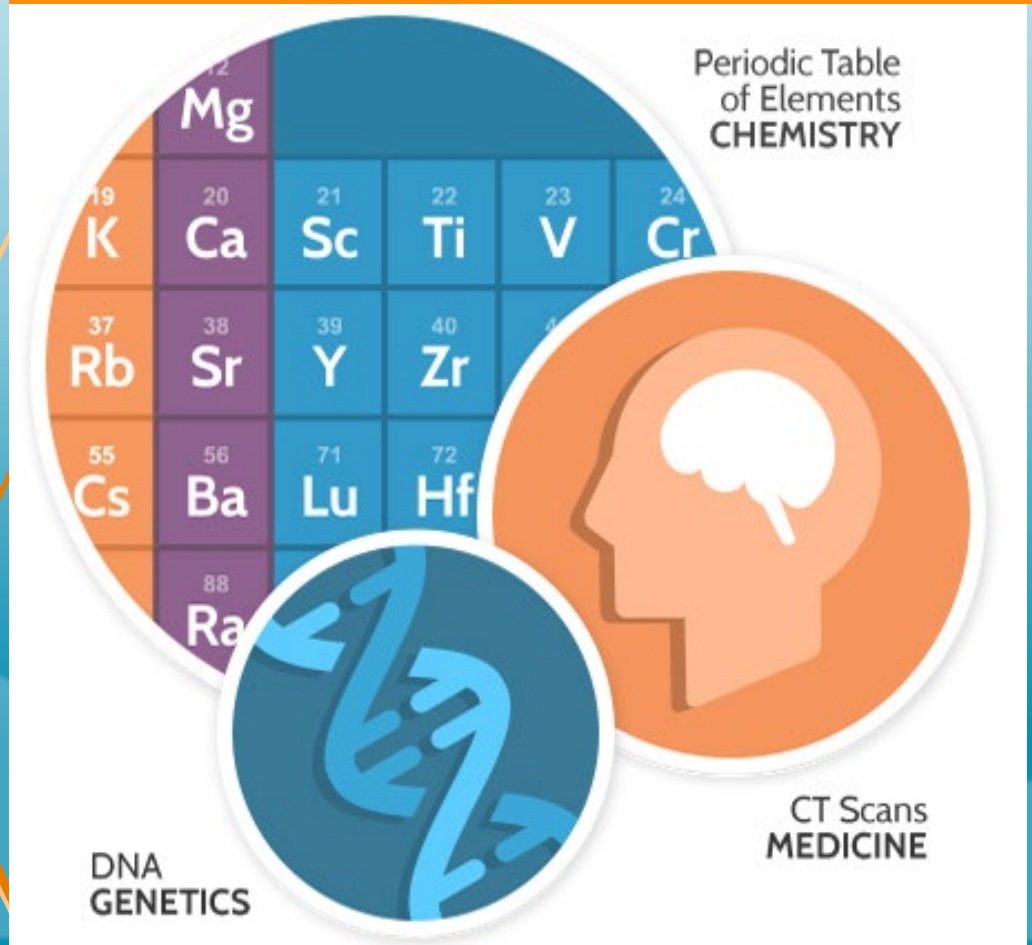
Undermines Financial Success

- Disorganized
- Uncoordinated
- Non-integrated
- Inefficient
- Ineffective
- Hard to Manage

Start with a Structural Model…

Use principles, laws, and strategies to align and position elements in a more scientific manner to overcome the financial junk drawer.

Solution

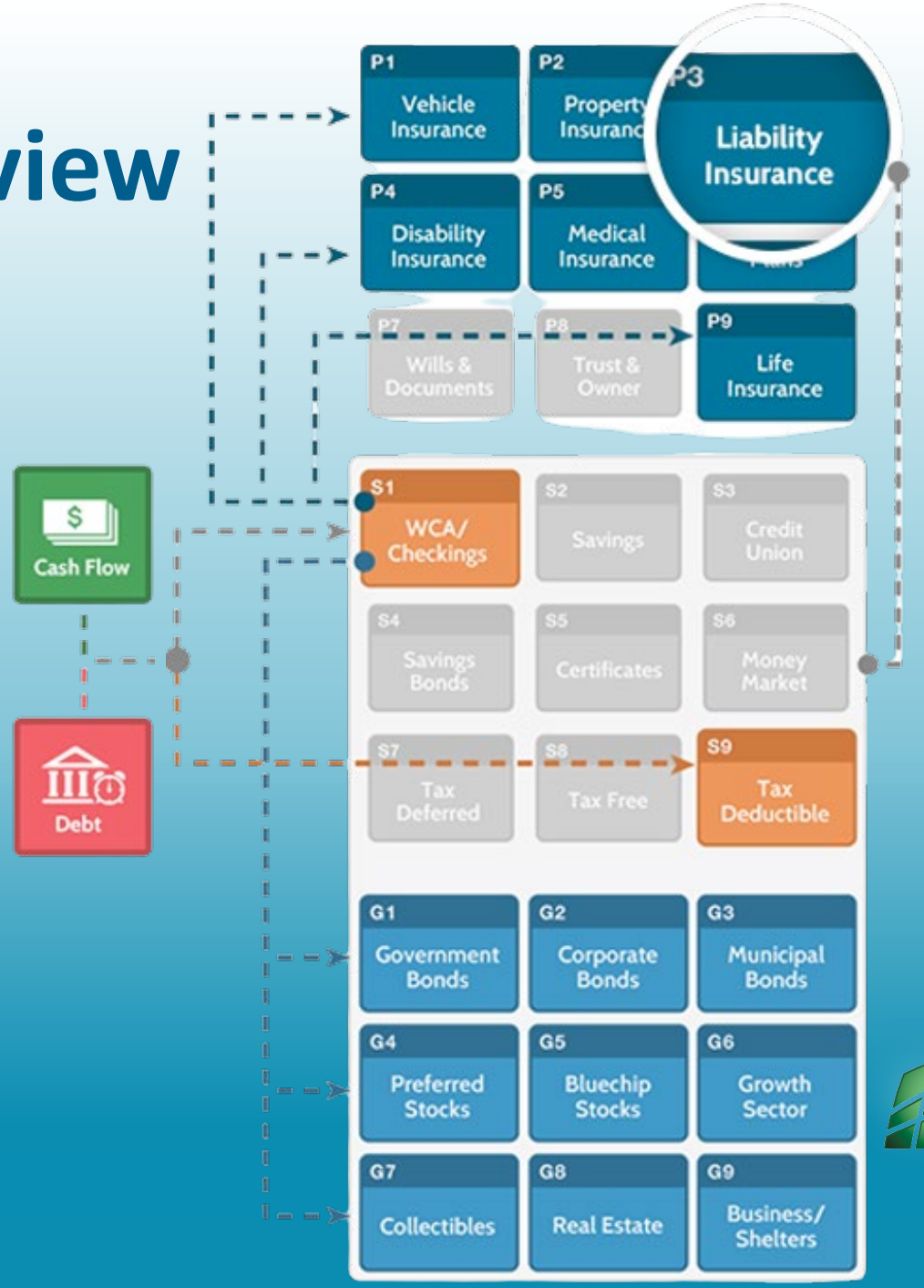


- Organized
- Rules-based
- Optimized
- Efficient
- Measurable
- Coordinated

The Coordination Review

Certain elements can integrate for more effective results.

Uncover and reallocate unused dollars to create additional money supply and superior benefits.



leap

Protection

Full protection is critical to guard against unforeseen events that can strike at any time and affect your financial future.

Assets	P1 Vehicle Insurance	P2 Property Insurance	P3 Liability Insurance
Assets & **Income**	P4 Disability Insurance	P5 Medical Insurance	P6 Government Plans
Assets, Income, & **Life**	P7 Wills & Documents	P8 Trust & Owner	P9 Life Insurance

Asset Allocation

Stocks	Bonds
84%	16%
64%	36%
20%	80%

Understanding the 4% Withdrawal Rule

If an investor withdraws a fixed percentage of their assets annually for retirement expenses, what is the likelihood that they will outlive their savings?

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%

The Trinity University Study

Understanding Your Target Retirement Income (TRI)

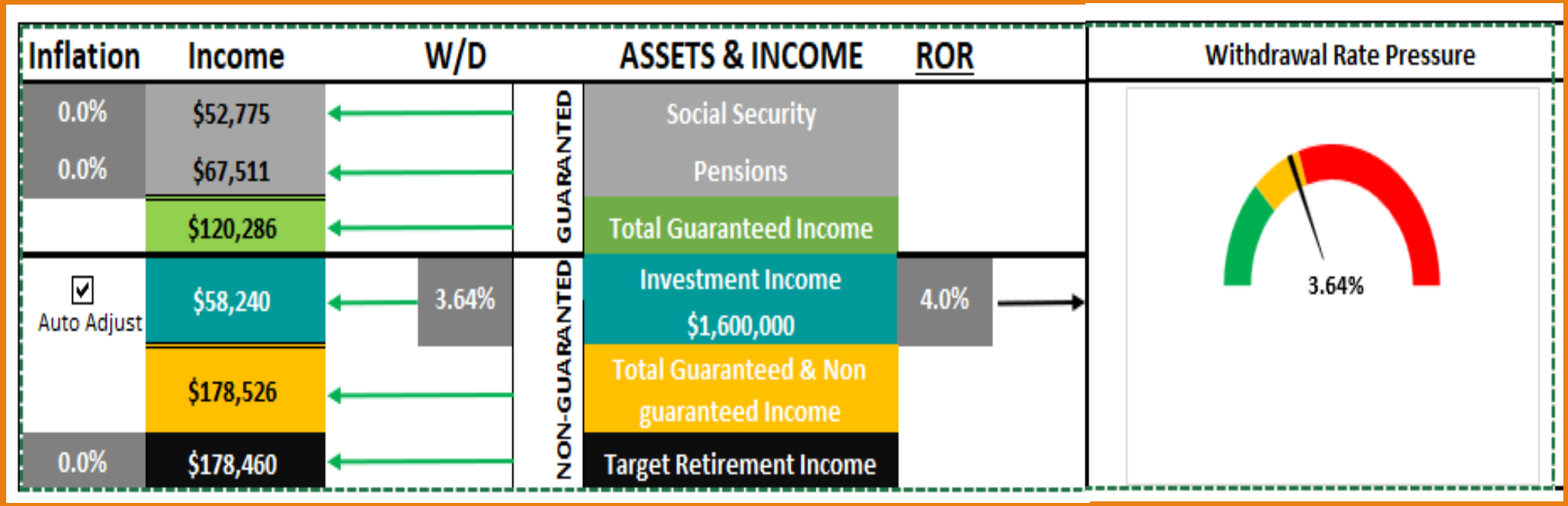
Step #1:

Gross Income – Spouse A	**$150,000**
Gross Income - Spouse B	**$100,000**
Total Gross Income	**$250,000**
Less	
TSP/401(k)	**$27,000**
TSP/401(k)	**$27,000**
Social Security	**$17,540**
Savings	**$0**
Mortgage	**$0**
Roth TSP	**$0**
Roth	**$0**
Non/Qualified IRA	**$0**
College	**$0**
Credit Cards	**$0**
Tax Equivalent	**$0**
Total Payments	**$71,540**
Target Retirement Income	**$178,460**

Understanding Your Investment Income Need

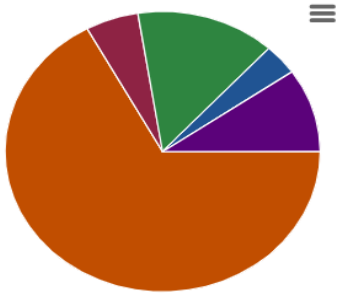
Step #2:

Target Retirement Income	$178,460
Social Security	($52,775)
Pension	($67,511)
Investment Income Needed →	**$58,174**


Inflation
Income
W/D
ASSETS & INCOME
ROR
Withdrawal Rate Pressure
0.0%
$52,775
Social Security
0.0%
$67,511
Pensions
$120,286
Total Guaranteed Income
GUARANTED
Auto Adjust
$58,240
3.64%
Investment Income
$1,600,000
4.0%
$178,526
Total Guaranteed & Non guaranteed Income
NON-GUARANTED
0.0%
$178,460
Target Retirement Income
3.64%

L Funds Allocation Comparison

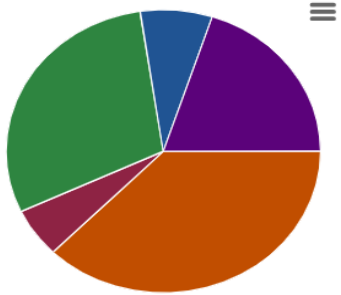
L Income



January 2026

G Fund	67.06%
F Fund	5.44%
C Fund	14.30%
S Fund	3.57%
I Fund	9.63%

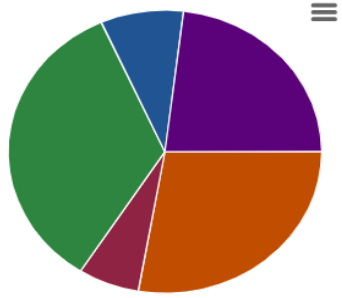
L 2030



January 2026

G Fund	37.38%
F Fund	5.62%
C Fund	29.64%
S Fund	7.41%
I Fund	19.95%

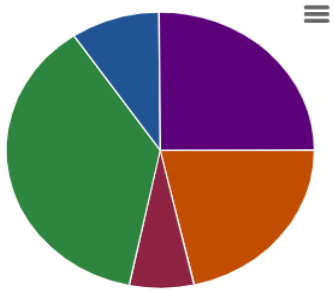
L 2035



January 2026

G Fund	27.74%
F Fund	6.32%
C Fund	34.29%
S Fund	8.57%
I Fund	23.08%

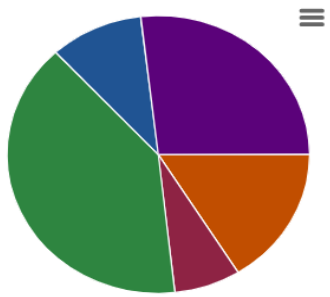
L 2040



January 2026

G Fund	21.47%
F Fund	6.78%
C Fund	37.31%
S Fund	9.33%
I Fund	25.11%

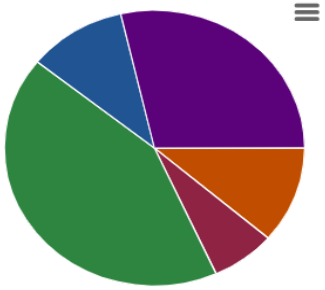
L 2045



January 2026

G Fund	16.16%
F Fund	7.09%
C Fund	39.91%
S Fund	9.98%
I Fund	26.86%

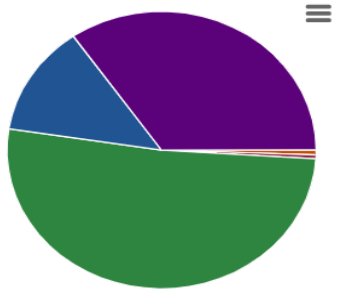
L 2050



January 2026

G Fund	11.33%
F Fund	6.92%
C Fund	42.51%
S Fund	10.63%
I Fund	28.61%

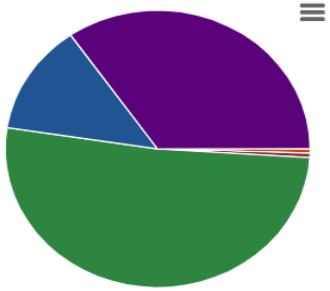
L 2055



January 2026

G Fund	0.56%
F Fund	0.44%
C Fund	51.48%
S Fund	12.87%
I Fund	34.65%

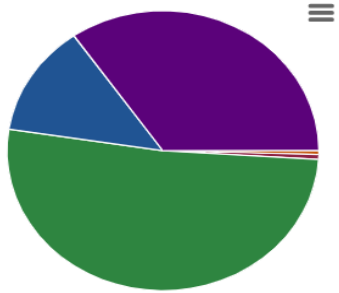
L 2060



January 2026

G Fund	0.50%
F Fund	0.50%
C Fund	51.48%
S Fund	12.87%
I Fund	34.65%

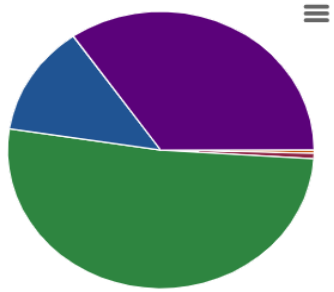
L 2065



January 2026

G Fund	0.44%
F Fund	0.56%
C Fund	51.48%
S Fund	12.87%
I Fund	34.65%

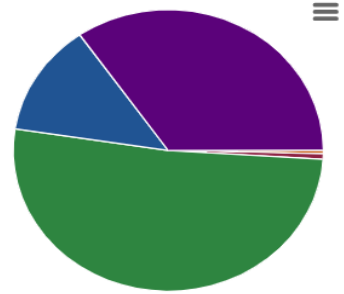
L 2070



January 2026

G Fund	0.36%
F Fund	0.64%
C Fund	51.48%
S Fund	12.87%
I Fund	34.65%

L 2075



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Understanding the 4% Withdrawal Rule

If an investor withdraws a fixed percentage of their assets annually for retirement expenses, what is the likelihood that they will outlive their savings?

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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%

The Trinity University Study

Plane Flying

3 Simple Rules

1. Never sell low
2. Buy into your philosophy
3. Safety money

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
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1982	$417,625	21.50%	$79,713	$410,564

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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

Courtesy of Leap Systems

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

COMPARE

1973 - 1991

1991 - 1973

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**

Courtesy of Leap Systems

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 of 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

Courtesy of Leap Systems

$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.

Example:
What if You Had to Take Distributions in 2022 ?

G Fund	F Fund	C Fund	S Fund	I Fund
2.98%	-12.83%	-18.13%	-26.26%	-13.94%

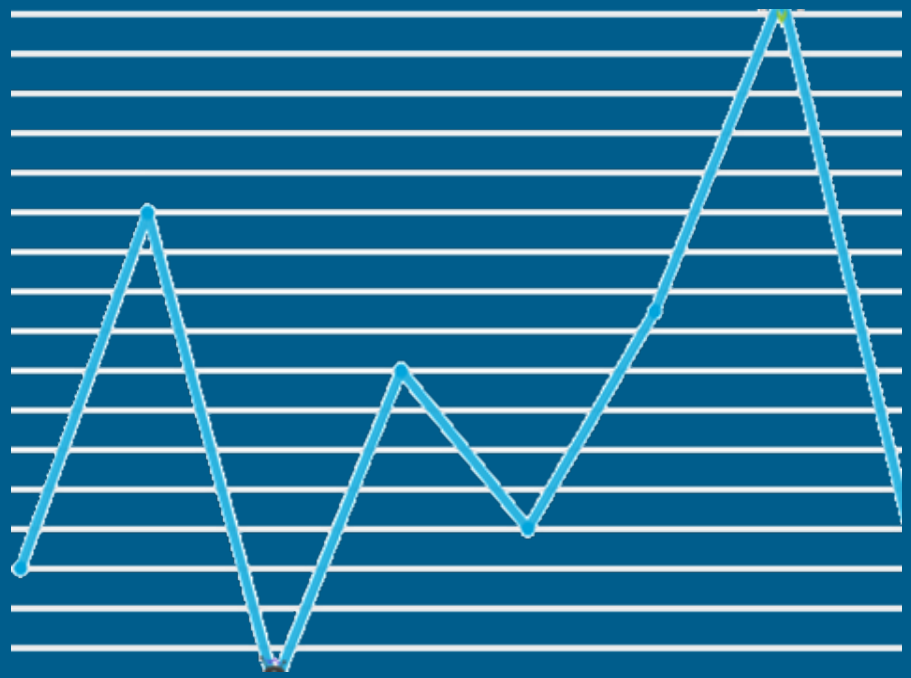
Portfolio

$500,000

20%	20%	10%	25%	25%	0%
C	S	I	F	G	
$100,000	$100,000	$50,000	$125,000	$125,000	$0
4%	4%	4%	4%	4%	0%
$4,000	$4,000	$2,000	$5,000	$5,000	$0

IRA

Market Sensitive



Ø

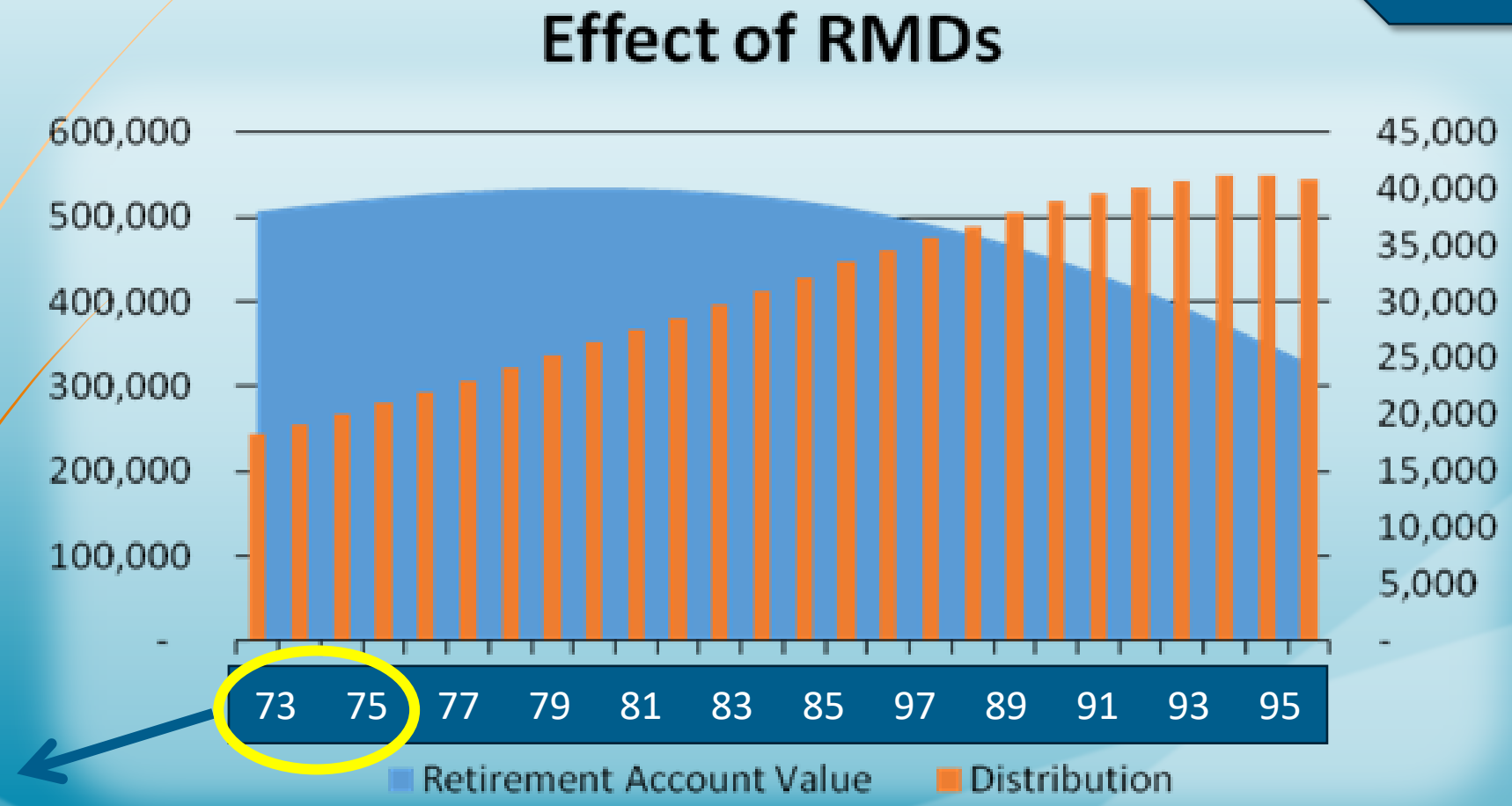
Principal Protection

TOTAL

$

RMDs Increase…

Assumes 5% annual return and starting value of $500,000



AGE 73…75

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

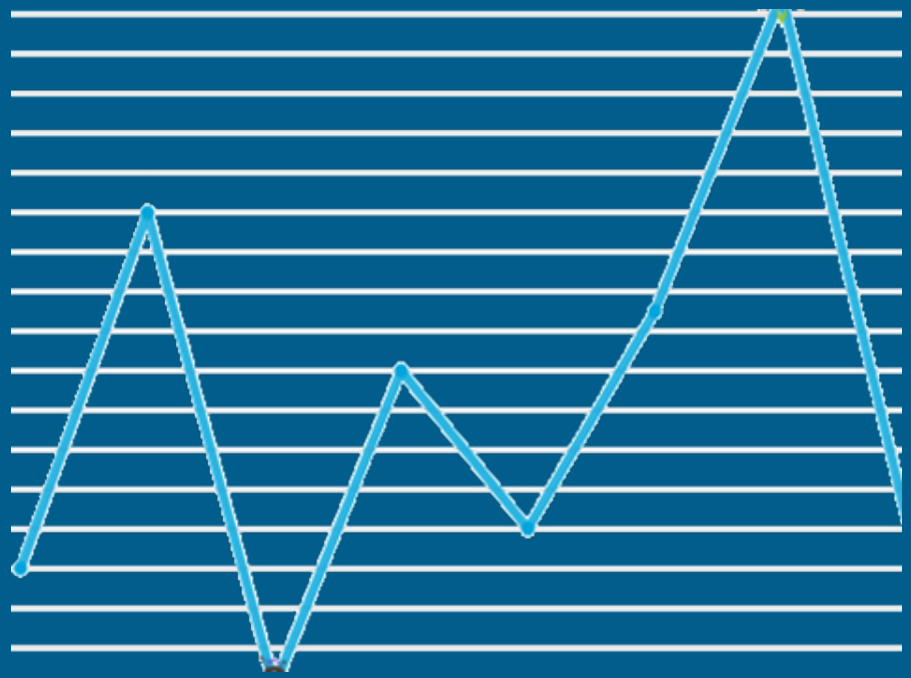
TSP	IRA	IRA
$100,000	$100,000	$100,000
X 4%	X 4%	X 4%
↓	↓	↓
$4,000	$4,000	$4,000

RMD

TSP	IRA	IRA
$100,000	$100,000	$100,000
X 4% ↓ $4,000	X 4% ↓ $8,000	↓

IRA

Market Sensitive



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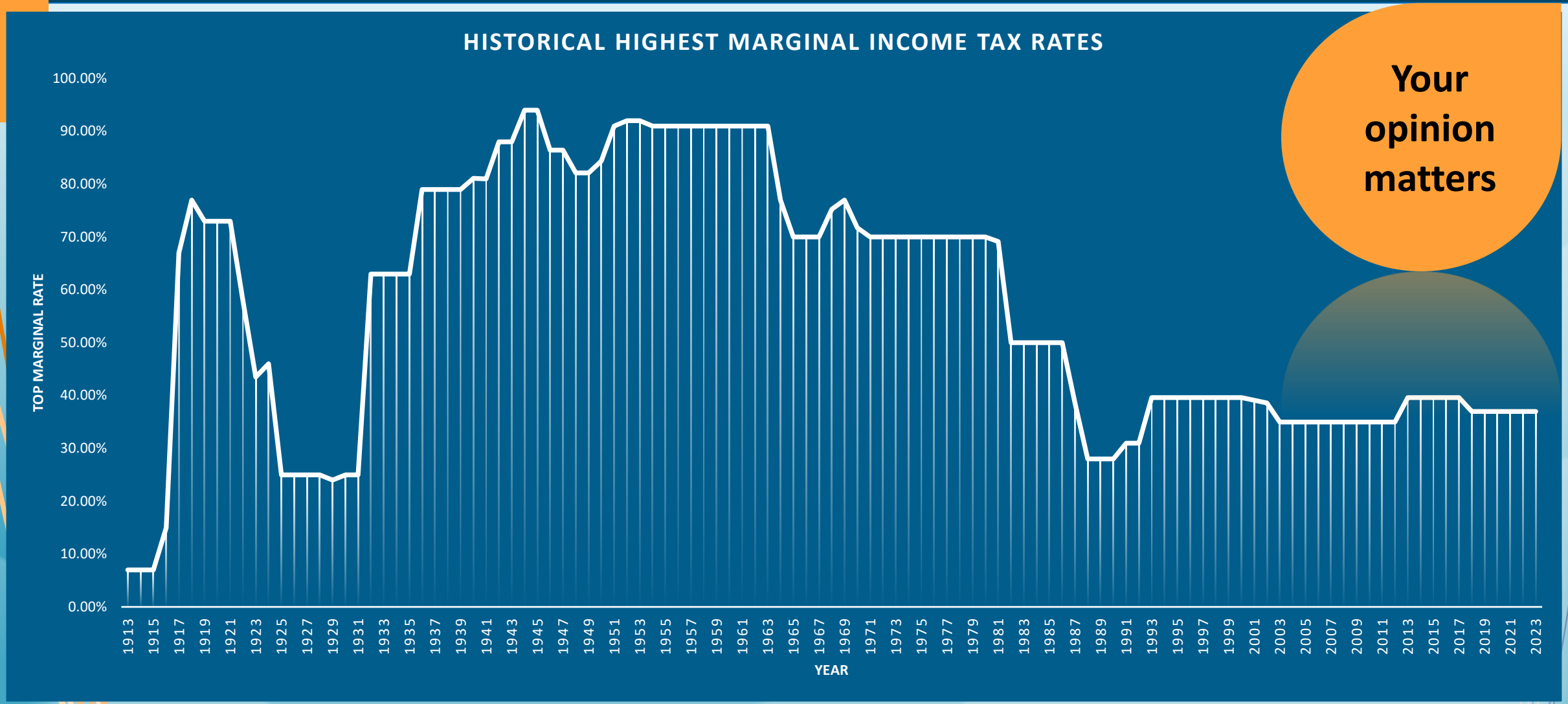
Principal Protection

TOTAL

$

Where Do You Think Taxes Will Be in Your Future?



Your opinion matters

- The data referenced in this chart we created is from the Tax Policy Center: https://taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates
- This table contains a number of simplifications and ignores a number of factors, such as the amount of income or types of income subject to the top rates, or the value of standard and itemized deductions. **Sources:** IRS Revenue Procedures, various years. Also, Eugene Steuerle, The Urban Institute; Joseph Pechman, *Federal Tax Policy*; Joint Committee on Taxation, Summary of Conference Agreement on the Jobs and Growth Tax Relief Reconciliation Act of 2003, JCX-54-03, May 22, 2003.

Target Retirement Income

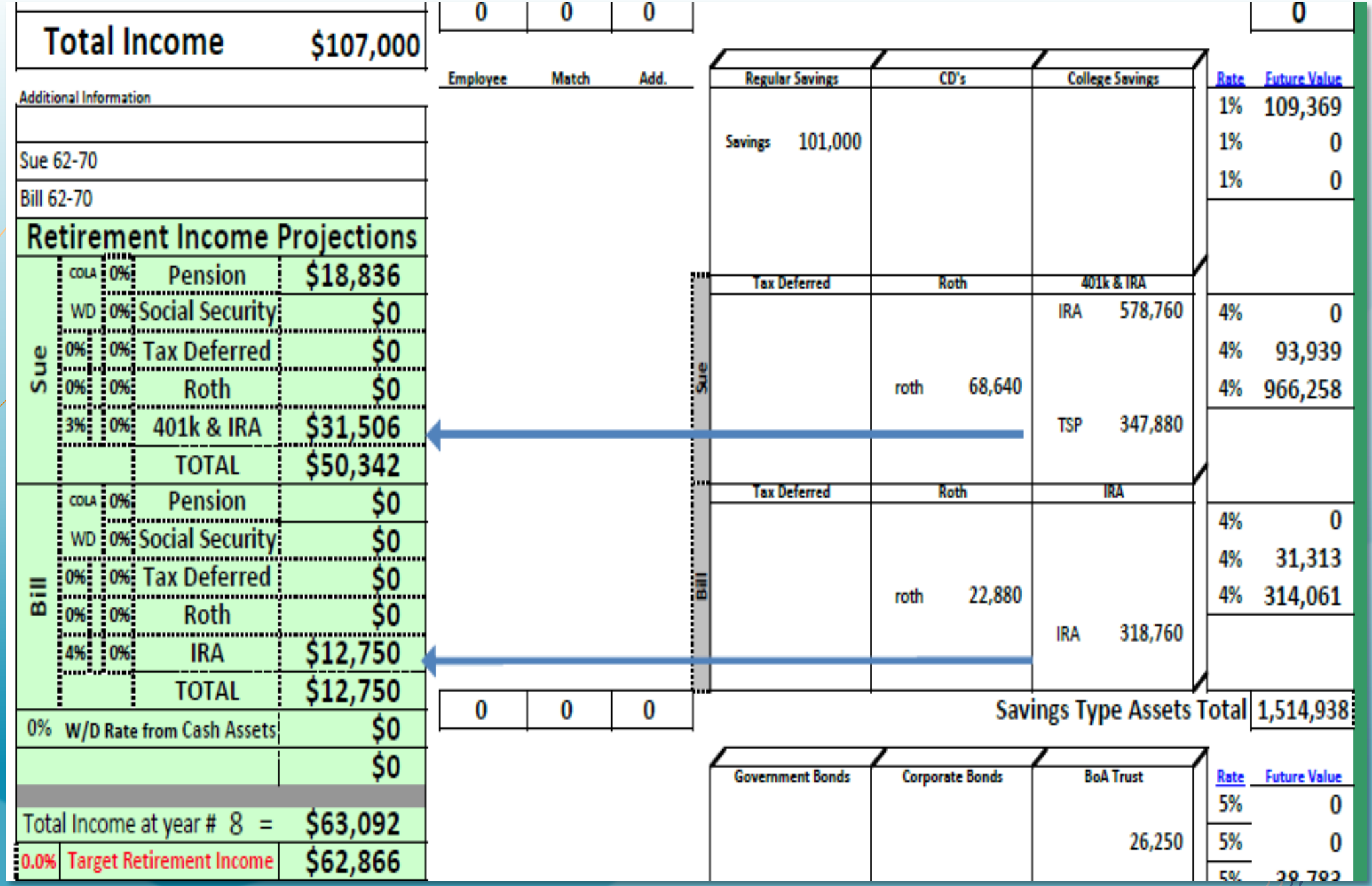
Gross Income - Sue	**$107,000**
Gross Income - Bill	**$0**
Total Gross Income	**$107,000**
Less	
TSP/401(k)	**$24,500**
IRA	**$6,500**
Social Security	**$6,634**
IRA	**$6,500**
Mortgage	**$0**
College	**$0**
Credit Cards	**$0**
Debts	**$0**
Tax Equivalent	**$0**
Non/Qualified IRA	**$0**
Roth	**$0**
Total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

What Tax Bracket Do You Fall Into?

Tax Bracket 2025

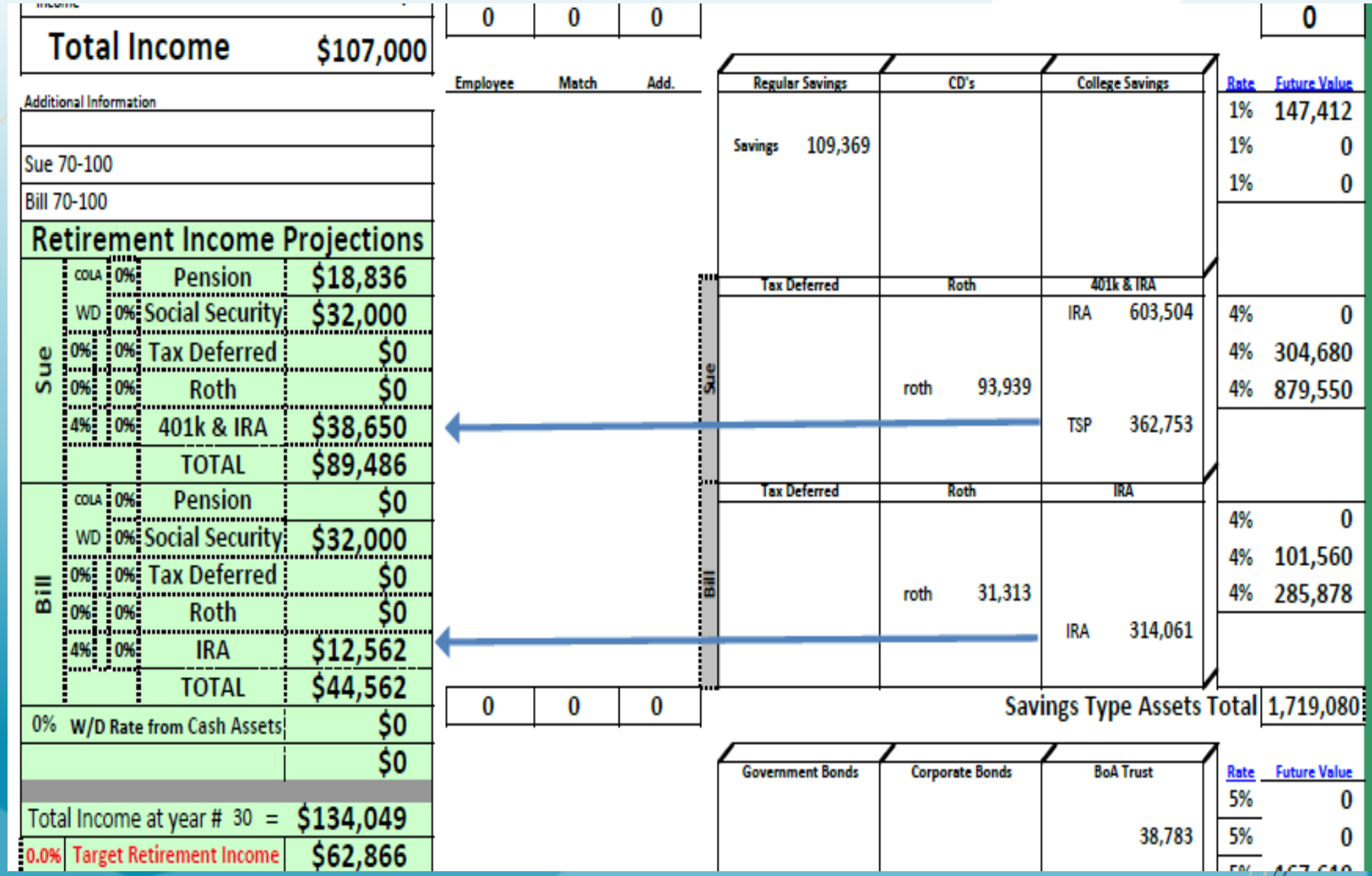
Tax Rate	For Single Filers	For Married Individuals Filing Joint Returns	For Heads of Households
10%	$0 to $11,925	$0 to $23,850	$0 to $17,000
12%	$11,925 to $48,475	$23,850 to $96,950	$17,000 to $64,850
22%	$48,475 to $103,350	$96,950 to $206,700	$64,850 to $103,350
24%	$103,350 to $197,300	$206,700 to $394,600	$103,350 to $197,300
32%	$197,300 to $250,525	$394,600 to $501,050	$197,300 to $250,500
35%	$250,525 to $626,350	$501,050 to $751,600	$250,500 to $626,350
37%	$626,350 or more	$751,600 or more	$626,350 or more

Sue Retires


Total Income $107,000
Additional Information
Sue 62-70
Bill 62-70
Retirement Income Projections
Sue
COLA 0% Pension $18,836
WD 0% Social Security $0
0% 0% Tax Deferred $0
0% 0% Roth $0
3% 0% 401k & IRA $31,506
TOTAL $50,342
Bill
COLA 0% Pension $0
WD 0% Social Security $0
0% 0% Tax Deferred $0
0% 0% Roth $0
4% 0% IRA $12,750
TOTAL $12,750
0% W/D Rate from Cash Assets $0
$0
Total Income at year # 8 = $63,092
0.0% Target Retirement Income $62,866
0 0 0
Employee Match Add.
0 0 0
Regular Savings
Savings 101,000
CD's
College Savings
Rate Future Value
1% 109,369
1% 0
1% 0
Tax Deferred
Roth
401k & IRA
IRA 578,760
4% 0
4% 93,939
roth 68,640
4% 966,258
TSP 347,880
Sue
Tax Deferred
Roth
IRA
4% 0
4% 31,313
roth 22,880
4% 314,061
IRA 318,760
Bill
0 0 0
Savings Type Assets Total 1,514,938
Government Bonds
Corporate Bonds
BoA Trust
Rate Future Value
5% 0
26,250
5% 0

RMD and Social Security Tab on Financial Model

RMD & SS



Total Income	$107,000

Additional Information

Sue 70-100

Bill 70-100

Retirement Income Projections

Sue	COLA	0%	Pension	$18,836
	WD	0%	Social Security	$32,000
	0%	0%	Tax Deferred	$0
	0%	0%	Roth	$0
	4%	0%	401k & IRA	$38,650
			TOTAL	$89,486
Bill	COLA	0%	Pension	$0
	WD	0%	Social Security	$32,000
	0%	0%	Tax Deferred	$0
	0%	0%	Roth	$0
	4%	0%	IRA	$12,562
			TOTAL	$44,562
0%	W/D Rate from Cash Assets			$0
				$0
Total Income at year # 30 =				$134,049
0.0%	Target Retirement Income			$62,866

Employee	Match	Add.
0	0	0
0	0	0

Regular Savings		CD's	College Savings	Rate	Future Value
Savings	109,369			1%	147,412
				1%	0
				1%	0

Sue	Tax Deferred	Roth	401k & IRA	Rate	Future Value
			IRA 603,504	4%	0
				4%	304,680
		roth 93,939		4%	879,550
			TSP 362,753		

Bill	Tax Deferred	Roth	IRA	Rate	Future Value
				4%	0
				4%	101,560
		roth 31,313		4%	285,878
			IRA 314,061		

			Savings Type Assets Total	1,719,080
0	0	0		

Government Bonds	Corporate Bonds	BoA Trust	Rate	Future Value
			5%	0
		38,783	5%	0

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