5 STEPS TO FINANCIAL PEACE IN RETIREMENT

WISER WEALTH MANAGEMENT

HOW DO YOU GET THERE?

You have worked hard, diligently saving for the day that you no longer have to wake up early, make that commute, stress over daily job activities, or hop on a plane leaving your family for work. Being retired is supposed to be the easy part and also the most enjoyable. Through our financial planning process at Wiser Wealth Management, we find that most clients indicate that their expectations for retirement success include less stress and more peace of mind in retirement.

So, let’s paint that picture. Here you are, retired. No longer receiving a paycheck and now living off what you have saved and invested. Perhaps the market is performing well or there could be uncertainty or volatility. Regardless of the events that occur, you can still achieve the retirement you were dreaming of if you follow five basic steps of managing cash flow, building cash reserves, maintaining investment discipline, avoiding debt, and optimizing Social Security.

1. MANAGE CASH FLOW

Some individuals do not like to budget, but understanding your cash flow is essential to understanding how to live within your means in retirement. First, you must know your essential daily living expenses like food, clothing, shelter, and transportation. Then, you must understand what it will cost for your health expenses, including healthcare premiums, co-pays and other out of pocket deductibles.

After you determine the essential needs, you can move to your wants and the discretionary items you would like to achieve. What are your expected lifestyle expenses in retirement? Would you like to travel? How often and in what way? Once a year or multiple times throughout the year? Maybe that even includes buying an RV and spending time riding across the country? Also, what are some of the hobbies you have not had time to enjoy while working or ones you would like to start pursuing like, golf, tennis, fishing, hunting, cooking, or gardening?

Retirement success is not based on the “nest egg” and “number” you need your investments to reach. It is more about the income needed to cover necessary and discretionary expenses in retirement.

After you have determined the amount needed each year, it should be adjusted upward by an assumed rate of inflation. We currently prefer to use 2.25% a year for living expenses and 5% annually for healthcare costs.

Understanding your expenses helps you do two things: manage your cash flows and protect your portfolio. Below are examples of expenses and income for a married retired couple.

Yearly Expenses:

Basic Living:	$31,000
Healthcare:	$11,000
Lifestyle:	$40,000
Total:	$81,000

Guaranteed Income:

Social Security #1:	$25,000
Social Security #2:	$21,000
Pension:	$15,000
Total:	$61,000

Investment Assets

401k #1:	$325,000
Roth IRA:	$150,000
IRA:	$380,000
Joint Brokerage:	$120,000
Total:	$975,000

In the example above, the $20,000 “retirement gap” or “retirement shortfall” of expenses not covered by guaranteed income sources will be covered from retirement savings. This 2% ($20,00/$975,000) withdrawal rate from retirement accounts is less than 4%, so this would be considered a safe withdrawal amount.

2. BUILD & MAINTAIN CASH RESERVES

Prior to retirement, during the *accumulation* phase of life, maintaining 3-6 months of cash for emergencies is sufficient. However, in retirement during the *decumulation* phase, it is important to avoid sequence of returns risk. This can eat into your portfolio's principal during market downturns and can significantly impact retirement success.

On average, a bear market for the Dow lasts 206 trading days, while the average bear period for the S&P 500 is about 145 days, according to data from Dow Jones Market Data. These bear markets also occur about once every 5 years.

# of Trading Days	S&P 500		DJIA	
	Average	Median	Average	Median
In Bear Market	145 days	132 days	206 days	137 days

For retired clients taking periodic withdrawals for income purposes, we create a separate 'cash bucket' in their accounts to cover approximately 24 months of expenses. This cash bucket stays in money market instruments and is used to ride out downturns allowing the investments time to recover.

In order to create this cash bucket, we sell a portion of the assets that had increased in value in the past and use the proceeds to secure these income payments. By doing this, we are not forced to sell assets for withdrawals while so many asset prices are depressed. It is always good to have enough **cash-on-hand** so you can have enough **cash-in-hand.**

3. MAINTAIN INVESTING DISCIPLINE

It is crucial to understand behavior in investing and control one's emotions. It is important to maintain a long-term perspective and invest within your risk tolerance. Especially in retirement, you may ask yourself, "Should I just go to cash because I'm scared of losing money that I need to live on?".

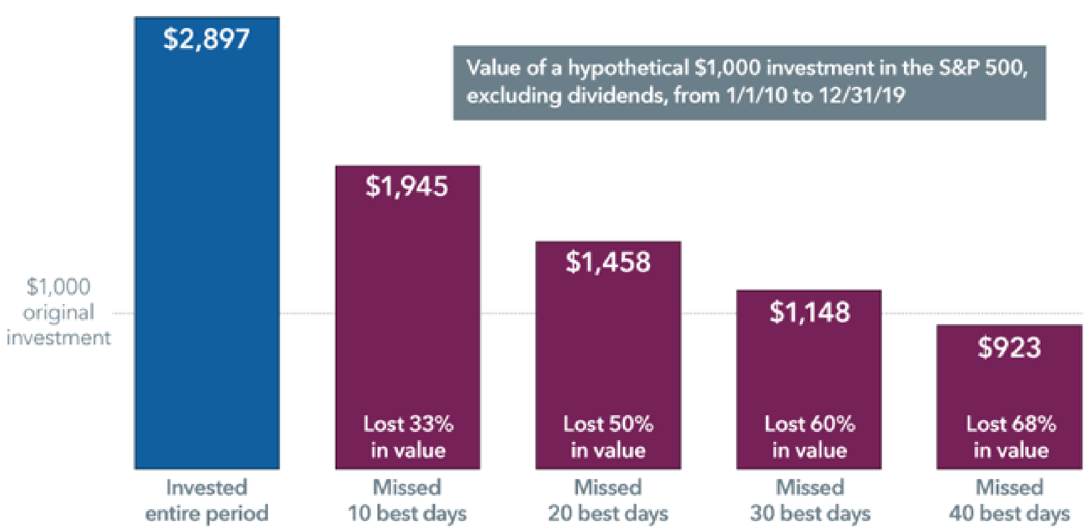
It is important to realize that investors do not usually fully participate in the market. Investors may watch CNBC and see red tickers flash across the screen showing the S&P or "market" losses for the day, current quarter or year-to-date. However, most portfolios are not invested 100% into the S&P 500. A well-diversified portfolio will consist of a blend of equities, both domestic and international, as well as bonds, whether they are corporate, international, emerging market or even U.S Treasury. At Wiser Wealth Management, we use a tactical approach to portfolio management developed through low cost ETFs.

It is important to realize a good financial plan accounts for losses in retirement. The financial plan focuses not only on investments, but also how those investments fit into your overall plan. We stress-test portfolios and financial plans to prepare for both the good and bad periods that markets experience. We plan for not if, but when, there are volatile times. Unless a client's financial goals or life priorities have changed, we maintain the course and remain invested, focused on the financial goals of the client.

You rarely talk to advisors who advise getting out of the market during volatility. Why? Because it is about time in the market and not timing the market.

As shown below in a chart from Capital Group, missing out on the best days of the market can have a huge impact on the recovery of your portfolio values. From 1/1/10 to 12/31/19, missing out on the 10 best days, causes this portfolio to miss 33% of possible growth and missing out on the 20 best days causes a 50% reduction. No one, even the most successful analysts, have a crystal ball and have the ability to always predict the bottom. Long-term investing is about staying the course and remaining invested during both the good and the bad times.

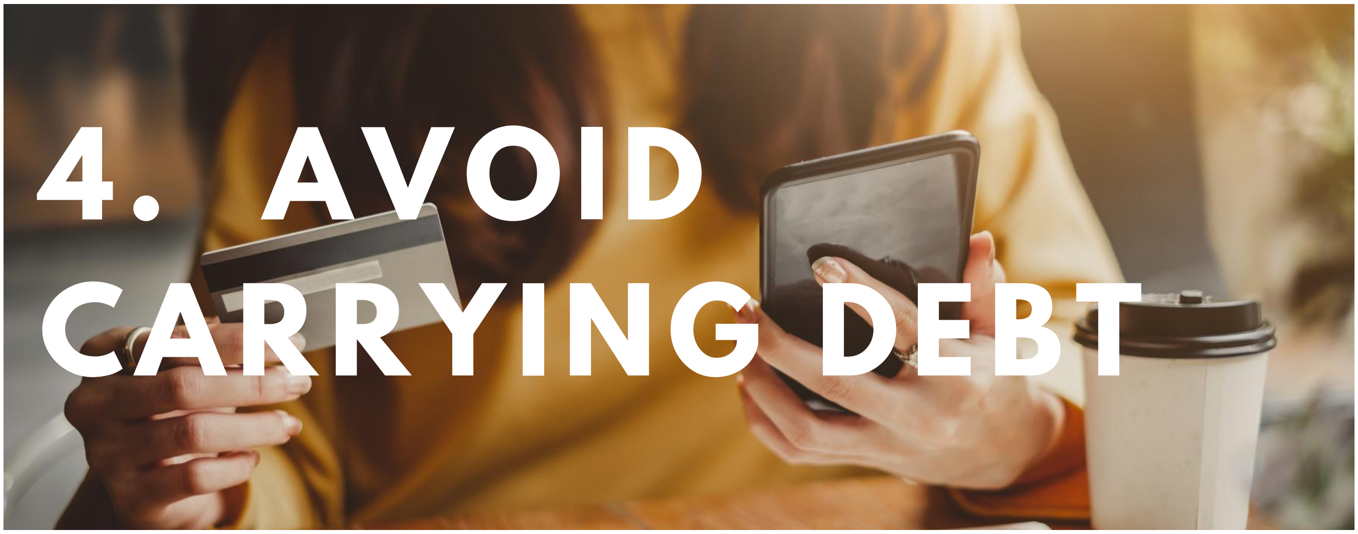
Missing just a few of the market's best days can hurt investment returns



Sources: RIMES, Standard & Poor's. As of 12/31/19. Values in USD.

With that historically said, if you move to cash you will realize significant losses for the year, and it will be tough to recover moving forward. If you try to time the market and get out now to get back in when the market recovers, you will most likely miss out on the best days of the market. That would require timing the market twice; getting out at the perfect time before it drops further and also getting back in at the perfect time once it bottoms.

We do not advocate going to cash during volatile times. However, during times of uncertainty, it can be a good time for investors to review their risk tolerance and capacity for risk. If you are not able to stomach the downturns and struggle to sleep at night with the volatility, then you should consider a more conservative, balanced portfolio after a recovery. It is important that our clients are informed and at ease when we encourage them to 'weather a storm,' even when it seems risky.



4. AVOID CARRYING DEBT

As we mentioned, cash flows are important in retirement. Can you imagine how it would feel when you are no longer saving for retirement and you also no longer have a large mortgage payment looming? The amount needed to live on is significantly less. In order to accomplish this, it is important to list out debt balances, interest rates and minimum monthly payments and then organize by the smallest balance first. Are there any that could be quickly eliminated to lower your monthly outflow of cash? Ideally, you want debt paid off.

This can be accomplished by being diligent in extra monthly payments, setting aside reserves while working, or lump sum of non-retirement account funds. We want clients to remain invested in the stock market while also setting aside additional money to pay extra towards the mortgage. Paying off the home by retirement allows the client to have the peace of mind at the start of the retirement journey, better long-term investing behavior and hopefully a larger nest egg for producing income for themselves.

5. MAXIMIZE SOCIAL SECURITY

Social Security optimization is an important part of successful retirement planning. A common question posed by retirees and those nearing retirement is, “When should I apply for Social Security?” Many Americans want to claim as soon as they are eligible at age 62. They feel like they have paid into the system and deserve to reap the benefits. Also, some are not sure how long the benefits may be around or if they will live long enough to see the break even on deferring their payments. However, thoughtful claiming strategies can help retirees make the most of their benefits

A careful review of Social Security regulations, your financial situation, and any health considerations you may have are crucial to developing a strategy to maximize income during retirement. For individuals in poor health or with little to no other financial resources, early Social Security claiming may be appropriate. But for most retirees, the increase in guaranteed income gained by deferring Social Security makes waiting to receive benefits an appropriate strategy.

There are varying thoughts and strategies to social security optimization. When planning for our clients at Wiser Wealth Management, we use social security optimization tools to help us analyze their situation and give the best advice.

Many clients initially think that taking Social Security at age 62 or at Full Retirement Age (FRA) is the best strategy. However, this is not always the case. Social Security can be applied for and received in many different ways. Clients can apply at age 62, however FRA varies based on the year you were born . Given that Social Security provides a base level of guaranteed income for most retirees, it is an important benefit for investors and their advisors to consider when designing a comprehensive plan for retirement income, especially since only 23 percent of workers say they considered how to maximize it when claiming. By delaying Social Security, retirees can stretch their savings.

In the past, the decision as to the “right” time to claim Social Security has often been based on a break-even analysis of a retiree’s expected benefits versus his or her life expectancy. That approach, however, ignores two key features of Social Security, namely: Once you start receiving it, it’s paid for the rest of your life, no matter how long you live, and it is usually adjusted upward for inflation.

A big concern for most retirees is the risk of outliving their savings. For many retirees who can afford to do so, deferring Social Security for a few years (even past their “full retirement age”) greatly increases their lifetime monthly benefit. Given that at age 65, more than 50% of women can expect to live past age 88 (and 50% of men past 85), delaying Social Security can provide powerful longevity protection and increased cash flows throughout retirement.

ENJOY FINANCIAL FREEDOM

Managing cash flows, building cash reserves, maintaining investment discipline, avoiding debt, and optimizing social security are all important steps in increasing the probability of successfully reaching retirement goals. At Wiser Wealth Management, we are a fiduciary, fee-only financial planning firm. As a fiduciary, we are legally bound to work in the client's best interest. We provide unbiased advice and are transparent in how we operate. Our financial planning objective is to help clients reach their financial goal and have peace of mind in retirement.

Financial planning is an ongoing process and decisions should be planned for in advance. At Wiser Wealth Management, we help you develop a financial plan intended to increase probability of success in retirement. We work in your best interest with transparent fees to help guide you to financial freedom.

Please visit wiserinvestor.com to schedule an appointment or by calling 678-905-4450.