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Retirement Planning Assumptions

To enjoy your retirement without financial worries, make sure you have enough money saved when you retire. This calculation can be a daunting task, since a variety of factors affect your required amount and inaccurate estimates for any factor can leave you with way too little in savings. Some of the more significant factors include:

What percentage of your preretirement income will you need? You can find various rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income. On the surface, it seems like you should need less than 100% of your income. After all, you won't have any work-related expenses, such as clothing, lunch, or commuting costs. But look carefully at your current expenses and how you plan to spend your retirement before deciding how much you'll need. If you pay off your mortgage, stay in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, then you might need less than 100% of your income. However, if you travel extensively, pay for health insurance, and maintain significant debt levels, even 100% of your income may not be enough. You need to take a close look at your expenses and planned retirement activities to come up with a reasonable estimate.

When will you retire? Your retirement date determines how long you have to save and how long investment returns can compound. You want to make sure your retirement savings and other income sources, such as Social Security and

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Everyone's Plan Is Different

Everyone's goals for retirement are different. Maybe your dream is to travel the world; maybe it's to live closer to your grandchildren. Maybe your plan is to while away the days fishing or quilting; perhaps you're planning to take up a second career. Maybe your goal is to save enough to leave a substantial sum to your beneficiaries. Whatever your dreams are, your retirement plan needs to reflect them — and because your dreams are uniquely yours, your retirement plan should be, too.

The biggest question most people have about retirement is: how much do I need? While that's not the only question, it is an important one. And while using an online retirement calculator is fine to get a very rough idea of how much you might need for retirement, those calculators don't take your dreams or particular circumstances into account; as such, the amount you'll actually need for retirement can vary greatly from the number on the online calculator.

To properly plan for retirement, you have to consider all the options, all the aspects, and all the opportunities. Please call if you'd like to discuss your retirement plan in more detail. ❍❍❍

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Assumptions

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pension benefits, will support you for what could be a very lengthy retirement. Even extending your retirement age by a couple of years can significantly affect the ultimate amount you need.

How long will you live? Today, the average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84 (Source: Social Security Administration). Most people use average life expectancies to estimate this, but average life expectancy means you have a 50% chance of living beyond that age and a 50% chance of dying before that age. Since you can't be sure which will apply to you, it's typically better to assume you'll live at least a few years past that age. When deciding how many years to add, consider your health as well as how long other family members have lived.

What long-term rate of return do you expect to earn on investments? A few years ago, many retirement plans were calculated using fairly high rates of return. Those high returns don't look so assured now. At a minimum, make sure your expectations are based on average returns over a very long period. You might even want to be more conservative, assuming a rate of return lower than long-term averages suggest. Even a small difference in your estimated and actual rate of return can make a big difference in your ultimate savings.

Have you considered inflation? Even modest levels of inflation can significantly impact the purchasing power of your money over long time periods. For instance, after 30 years of just 2% inflation, your portfolio's purchasing power will decline by 45%. When estimating an inflation figure, don't just look at the historically low inflation rates of the recent past. Also consider long-term inflation rates, since your retirement could last for decades.

What tax rate do you expect to pay during retirement? Especially if you save significant amounts in tax-deferred investments that will be taxable when withdrawn, your tax rate can significantly affect the amount you'll have available for spending. You may find your tax rate is the same or higher after retirement.

Once you've estimated these factors, you can calculate how much you'll need for retirement. Please call if you'd like help with this calculation. ❍❍❍

What Kind of Retirement Do You Want?

We all know the process. Estimate how much is needed in retirement (which can range anywhere from 70% to over 100% of preretirement income), determine available income sources, and then calculate how much to save annually to reach those goals. As you go through this largely mathematical exercise, however, don't forget the most important part. You need to give serious thought to the type of retirement you want — visualize what retirement will be like.

Retirement is no longer viewed as a time to slow down, but considered a new beginning in life. That means your current living expenses may have very little to do with your retirement expenses. To help you visualize your retirement so you can estimate retirement expenses, consider these questions:

✔ When do you want to retire? Will you realistically have the resources to retire at that age?

✔ Do you plan to stay in your current home, trade down to a smaller one, or move to a different city? If you plan to move, is the cost of living there more or less expensive than your present city?

✔ Will your mortgage be paid off by retirement? What about other debts?

✔ Will you continue to work after retirement? If so, will you work part- or full-time? Where will you work and how much can you expect to earn? Do you have any hobbies or interests that can be turned into paying jobs? Are you planning to start a business after retirement?

✔ How will you spend your free time? What hobbies will you pursue? How much and where will you travel? How much will all these activities cost?

✔ How will you pay for medical costs? Will your employer provide health insurance or will you need to purchase insurance to supplement Medicare coverage?

✔ Do you have any medical conditions that are likely to impact your quality of life in retirement? What would you do if you became physically disabled? Would your spouse take care of you, would you move in with your children, or would you go to a nursing home? How will you provide for long-term-care costs?

✔ How much of your income will be provided by personal investments, including 401(k) funds? Are you confident those investments will last your entire retirement?

✔ What would happen financially if your spouse dies? If you die, would your spouse be able to support himself/herself financially?

Answering these questions should give you a clearer picture of what your retirement will be like. If you'd like to review these questions in more detail, please call. ❍❍❍

Avoid These 10 Insurance Mistakes

Few people enjoy thinking about their insurance needs, shopping for coverage, or reading through a policy's fine print. Once they do buy a policy, many people rarely think about it again, other than when they pay the premiums. But that tendency to avoid thinking about insurance can lead to insurance mistakes that can put a person's assets at risk. Below are some of the most common insurance mistakes:

Expecting the best — Some people may think they can skip various types of essential insurance (like auto or health insurance) because it won't happen to them. Or they may buy a bare-bones policy thinking they won't ever need to make a claim. But the reality is that accidents and injuries can happen to anyone. A comprehensive insurance plan protects you when they do.

Not shopping around — If you're in the market for a new policy, shop around and compare prices to get the best deal. But make sure you're comparing equivalent policies and coverage — an ultra-cheap policy may offer skimpy benefits.

Buying too much insurance — While insurance is a valuable part of your overall financial plan, there is such a thing as being overinsured. If you're paying high premiums for insurance coverage you don't really need, you're wasting money. What types of insurance might you skip? Extended warranties, cell phone insurance, insurance for specific diseases (like cancer), rental car insurance, and mortgage life insurance are usually not worth the premium you pay.

Not negotiating on insurance rates — Here's a little-known tip: The premium price you're quoted isn't set in stone. Depending on the type of coverage you need, you may be able to get discounts based on your profession, the age of your car, installing an alarm system in your home, choosing a higher deductible, and more. Bundling — buying several policies through the same carrier — can also lead to premium price breaks.

Forgetting to pay the premium — It's a simple but potentially devastating mistake. Missing premium payments could cause your policy to lapse, leaving you without coverage. Reduce the risk of this happening by automating your payments.

Dropping coverage to save money — When your budget is tight, dropping insurance coverage may seem like a good way to save cash. You may save money in the short term, but you could end up worse off in the long term if you need to make a claim. If premium payments are straining your budget, consider raising your deductible or asking your insurer if you're eligible for any discounts.

Forgetting to update life insurance beneficiaries — As your life changes, so should the people named as beneficiaries on your life insurance policy. Divorce, remarriage, the death of a spouse, or the birth or death of a child are all times when you should update these designations. If you fail to take this simple step, your life insurance may not do its job when you need it most. After all, do you want your insurance benefits to go to your ex-spouse or have one child receive a generous insurance payment while the other receives nothing? Keeping your beneficiary designations up-to-date can help you avoid those outcomes.

Having coverage gaps — Everyone faces different risks, and thus has different insurance needs. Sometimes, it's easy to overlook a risk until it's too late. For example, if you live in an earthquake-prone area, you likely need separate earthquake insurance. If you serve on a nonprofit board of directors, you may need personal liability coverage. If you own ATVs, snowmobiles, or other vehicles, you may need special policies to protect yourself in case of damage to the vehicle or a lawsuit. The list of possible risks goes on and on.

Not researching an insurance company before you buy — Not every insurance company is created equal, and what looks like a great deal today may be less appealing tomorrow when you are struggling to get a claim processed quickly. Before you buy, get multiple quotes, read the policy's fine print, review the insurer's complaint record with the state department of insurance, and check the company's ratings with ratings agencies like Fitch, Moody's, and A.M. Best.

Not thinking about insurance as part of your overall financial plan — Insurance isn't something you should think about in isolation. In fact, it's an essential part of your overall financial plan. A solid risk management strategy protects your hard-earned wealth and your family's future. Please call if you'd like to discuss insurance in more detail.

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If Only They Used Their Talents for Good

As I write this, the Colonial Pipeline has begun transporting oil again after recovering from its recent ransomware attack. These types of attacks generally involve the introduction of a virus that blocks access to the files in a system (computer, network, etc.) until a ransom is paid. These and other types of scams have historically been aimed at individuals. In the last 18 months or so, I have noticed a sharp increase in the number of cold calls I receive – on some days they exceed 20 calls.

The ingenuity of scammers cannot be underestimated. I have often said to clients, "If only they used their talents for good…" Whether it is the imagination of the programmers creating viruses or the tenacity of the phone scammers, these skills could be used for good. Instead, we must remain cautious as scammers come up with creative new ways to separate us from our money. Ransomware is clearly a shakedown – overtly perpetrated for money. Others are more subtle.

Scams are ultimately intended to steal money, of course. Providing your credit card information over the phone or internet could open you up to unauthorized charges. Often, the objective of each contact (email, phone call, text, etc.) may be a small step toward the larger goal of what we broadly call identity theft. They may seek to open credit cards, file fraudulent tax returns, or access existing accounts. Doing so would usually require your name, date of birth, and Social Security number.

The number of possible ruses is endless, but here are some common ones:

• Consumer prepayment for services that are not performed, such as housework, medical equipment, title searches, timeshare sales, etc.

• The sweetheart scam and caregiver scam have swindlers develop a position of trust which allows them to gain control of the target's accounts. These prey on the target's desire for companionship.

• The grandchild scam takes advantage of compassion for family. This scam has someone phoning the target posing as or purporting to represent a relative – most often the grandchild – who is experiencing some crisis and is in urgent need of cash. Depending on the victim, the grandchild scam could be motivated by fear.

• Preying on fear is certainly the objective with IRS scams. I receive at least one call per day where a recorded message informs me that IRS agents are on the way to my house. The recording is not very convincing, but I suspect that it will improve with time. I have also received email from the IRS regarding personal tax issues. It is important to note that, according to IRS.gov, "The IRS doesn't contact taxpayers by email, text messages, or social media channels to request personal or financial information. This includes requests for PIN numbers, passwords or similar access information for credit cards, banks or other financial accounts."[1] Further resources can be found on www.irs.gov. Once on the site, search for "phishing."

Phishing is a term used to describe the sending of emails claiming to be from reputable companies aimed at trying to get individuals to reveal personal information. The IRS scam involves spoofing, which is the act of making a communication (phone call, email, etc.) from an untrustworthy source appear as if it is from a trustworthy source. They can make an email appear as if it is from the IRS and use your fear to compel you to divulge personal information. A similar tactic has been used to gain access to personal computers. The target receives an email or phone call from someone posing as a recognizable technology company, such as HP or Microsoft, claiming that your computer has a virus. They offer to help you get rid of it by asking to you to go to a specific website and allow them to control your computer. Once access has been gained, they can then get your personal information.

How do you protect yourself? Securing your information begins with your securing and maintaining your network and devices. In addition to establishing passwords on your wireless network, computers, smartphones and applications, two-step authentication should be used wherever possible. Two-step authentication involves entering a password and then at least one other piece of validating information. This is often a key code that is sent via text message to the user's phone. Ensure all your PCs use antivirus software. Back up your data regularly.

Review your privacy settings on social media and be careful what information you share on social media. Some personal information can be inadvertently shared, including your address and birthdate. Further, answers to many common security questions may be easily found, including your mother's maiden name, favorite sports team, pet's name, etc.

Don't click on unknown links or open suspicious attachments. Opening an unknown link can unleash viruses. Don't fall victim to "your computer is infected" messages or messages making unrealistic threats or demands.

What do we do to protect you? We periodically receive spoofed emails from clients requesting cash. They generally involve an explanation for why the client cannot speak – too busy, traveling, medical reasons. Sometimes, they involve some small piece of accurate personal information. We will call you if we receive a suspicious email, regardless of the request. We do not provide or request personal information via email. We may request it verbally, by phone, if we need to verify your identity. All third-party bank wires require verbal confirmation and a signed Letter of Authorization. At times, clients are inconvenienced by various security measures, but such measures are in place to protect client assets.

Raymond James requires the entire staff to go through training on recognizing the signs of these types of scams. While sharing the particulars of that training would not be prudent, I will tell you that Raymond James tests our effectiveness by sending emails that should trigger our suspicion.

If you believe that your personal information has been compromised, you should call us and any other financial institution with whom you deal. Each firm has a process for placing additional safeguards on accounts.

Both Burke Financial Strategies and Raymond James consider the security of client accounts to be of the utmost importance. This information was largely gathered from materials created by Raymond James. If you would like more information, please let us know.

Sincerely,

Christopher M. Trainor

Christopher M. Trainor, CFP®
Financial Advisor

[1]https://www.irs.gov/privacy-disclosure/report-phishing