3 Ways to Avoid Running Out of Money in Retirement

A 15-Minute Guide

Thayer Partners, LLC
617-275-5430
info@thayerpartnersllc.com
thayerpartnersllc.com

THAYER PARTNERS

Did you know that most people worry they will run out of money in retirement?

Three-quarters of Americans worry they don't have enough money to retire.[1] According to financial experts, the average person needs at least 75% to 80% of their preretirement income to sustain their standard of living after they retire.[2]

And let's not forget that life expectancy is increasing, with Americans living an average of 78.8 years, a new record high.[3] If you're approaching retirement, you should plan accordingly.

What concrete steps can you take today to help insure you enjoy a comfortable, secure retirement? To help minimize your risk, Thayer Partners suggests you keep the following questions in mind when planning for retirement.

1. How do you maximize your Social Security payments?

2. What are the three most important ways you can protect and grow your portfolio?

3. How do I make the right Medicare decisions?

[1] Harris Poll. "Three-Quarters of Americans Worry about Having Enough Money to Retire." Harris Interactive. http://www.harrisinteractive.com/NewsRoom/HarrisPolls/tabid/447/mid/1508/articleId/1463/ctl/ReadCustom%20Default/Default.aspx (Accessed April 10, 2015).
[2] Tom Sightings. "How Much Money Do You Need to Retire?" *U.S. News & World Report*. http://money.usnews.com/money/blogs/on-retirement/2014/08/19/how-much-money-do-you-need-to-retire (Accessed April 10, 2015).
[3] Larry Copeland. "Life Expectancy in the USA Hits a Record High." *U.S.A. Today*. http://www.usatoday.com/story/news/nation/2014/10/08/us-life-expectancy-hits-record-high/16874039/ (Accessed April 10, 2015).

1. How do you maximize your Social Security payments?

The most important part of maximizing your Social Security is knowing when to start taking it. But knowing the correct answer to this question is complicated. There are over 2,000 rules governing Social Security payouts and over 70,000 ways to collect.

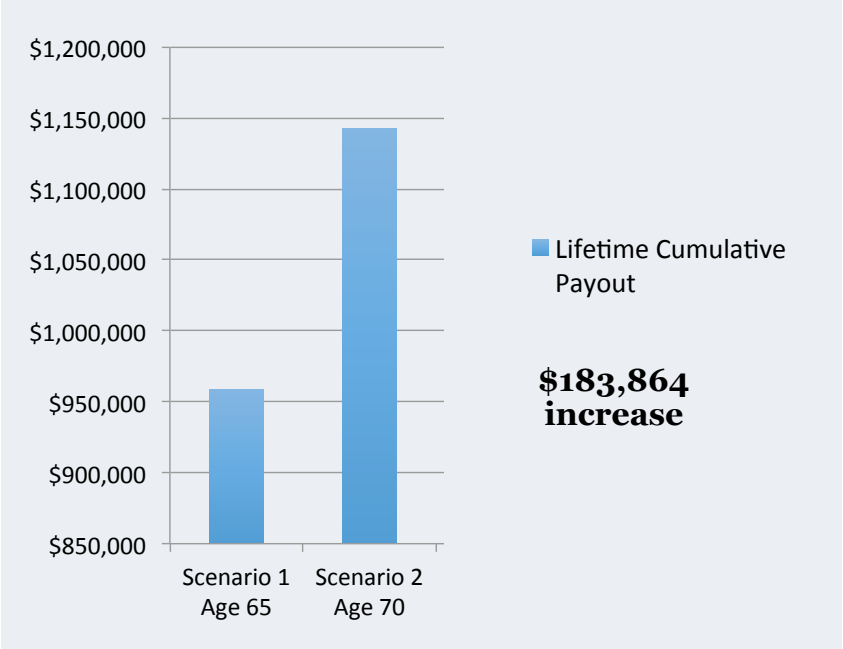
This means that over 70% of Americans take their benefits sub-optimally.[4] Taking payments at the wrong time means leaving money on the table, and making the right decision could mean $50,000 to $100,000 more. Because Social Security will account for a large percentage of your income in retirement, this is one financial decision you cannot afford to get wrong.

With expert advice and today's state-of-the-art technology software, you can evaluate thousands of scenarios in as little as 10 minutes to create a customized strategy that will give you all the money you're entitled to.

There are Social Security strategies that mean more money for almost every situation—widows and widowers, divorcés and divorcées, even for those who have already started taking Social Security—so it's critical to make sure you have conducted a thorough review of your options. It's also important that you do not rely on simple online Social Security calculators (since many evaluate only a fraction of the possible collection strategies available to you) or Social Security Administration employees (since they are not trained to show you all of the ways to maximize your payments). Taking Social Security is simply too complicated.

Here is an illustrative example.
Tom (62) and Melinda (60)
Tom's Full Retirement Benefit: $2,424
Melinda's Full Retirement Benefit: $1,254

Tom and Melinda both plan to retire when Tom is 65 and begin taking their Social Security retirement. With this plan, Tom's monthly benefit at age 65 would be $2,262, and Melinda's would be $1,003. This would result in a lifetime cumulative payout of $958,500.



[4] Social Security Solutions, https://www.socialsecuritysolutions.com/we-get-you-more.php (Accessed April 22, 2015).

If Tom and Melinda continued with their plan, their benefits would be reduced because they are filing early. Also, Melinda would be eligible for both a spousal benefit and her own retirement benefit, but because she was going to file before her full retirement age, she would be subject to a rule that would automatically pay her the higher of the two benefits—in this case, her own benefit. Tom and Melinda would not be able to take advantage of spousal switching strategies that can earn thousands more for a married couple.

To maximize their benefits, Tom should file for Social Security when he reaches his full retirement age but immediately suspend payments. This will make Melinda eligible for spousal benefits, which she should begin at her full retirement age. She will receive a spousal benefit of $1,212 monthly until age 70, at which time she should switch to her own retirement benefit that has accrued delayed retirement credits. Her benefit at age 70 will be $1,655.

Tom should begin his own retirement benefit at age 70, and it, too, will have accrued delayed retirement credits. His monthly payment at age 70 will be $3,199. Together, their lifetime cumulative benefit will be $1,142,364. And the survivor benefit is $937 greater per month with this claiming strategy.

This strategy increases Tom's and Melinda's income in retirement by $183,864.

2. What are the three most important ways you can protect and grow your portfolio?

You are most likely counting on drawing from your portfolio during retirement. Like many retirees, however, you may not have considered how much you can withdraw—and how to ensure you don't run out of money.

Building your ideal portfolio begins with determining the amount of risk you are comfortable with taking in the market that also allows for the best return. Your ideal portfolio is also based on other needs—your investment objectives, cash flow requirements, and more. Here are three ways you can best protect and grow your portfolio.

Diversify your investments

Build a globally diversified portfolio, one that is invested in all major asset classes (stocks, bonds, cash). Diversification is a sensible, lower-risk way to manage volatility, making you less likely to panic in a downturn, which increases your chances for consistent growth of your investments. It is also more likely to deliver middle-of-the-road growth over the long term.

Use low-cost, market-performing index funds

There are two basic camps in the investment world—those who can or believe they can beat the market and those who believe the best way to grow investments is by getting the market. This is the difference between active and passive investors. Fidelity is an example of a firm that promotes active investing through their higher-cost mutual funds while Vanguard is best known for pioneering the passive strategy through its lower-cost index funds.

A *Forbes* article reported that nearly 75% of all active mutual fund managers underperformed their benchmarks; this is part of a long-term and well-documented trend showing that professional investors underperform.[5] Amazing but true.

The Importance of Good Financial Planning

A good financial planner doesn't just manage money; he or she provides a clear roadmap for your retirement. If you're worried about running out of money in retirement, you need an advisor who can show you where the money will come from to meet your living expenses. This means setting a budget by analyzing your current spending and matching that with the income and gains coming from your investments. Your planner should be proactive, not just keeping you updated on the performance of your portfolio but also helping you make key decisions like maximizing your Social Security payments and making the most of Medicare. People often mistakenly refer to their advisors as financial planners when there isn't much financial planning being done.

[5] Gregg S. Fisher, "In Mutual Funds, Is Active Vs. Passive The Right Question?" *Forbes*. http://www.forbes.com/sites/greggfisher/2013/08/28/in-mutual-funds-is-active-vs-passive-the-right-question/ (Accessed April 23, 2015).

The large mutual companies—household names like Putnam, American Funds, and Fidelity—tout top-performing funds when a manager or market is hot and count on retail investors' hope that the outstanding performance continues. But here's the bottom line. If you build a globally diversified portfolio of primarily index funds, your funds are likely to outperform nearly 75% of all comparable, actively managed funds.

Protect your investments with market-linked, FDIC-insured CDs

In this low-interest rate environment, few investors buy fixed-rate certificates of deposit these days and for good reason—because they don't earn much. But there is another kind of certificate of deposit. Using market-linked or indexed CDs prudently can give you potential market upside while significantly reducing risk to principal in your portfolio. Benefits include:

- 100% principal protection when held to maturity
- FDIC-insured
- Income and growth potential

3. How do I make the right Medicare decisions?

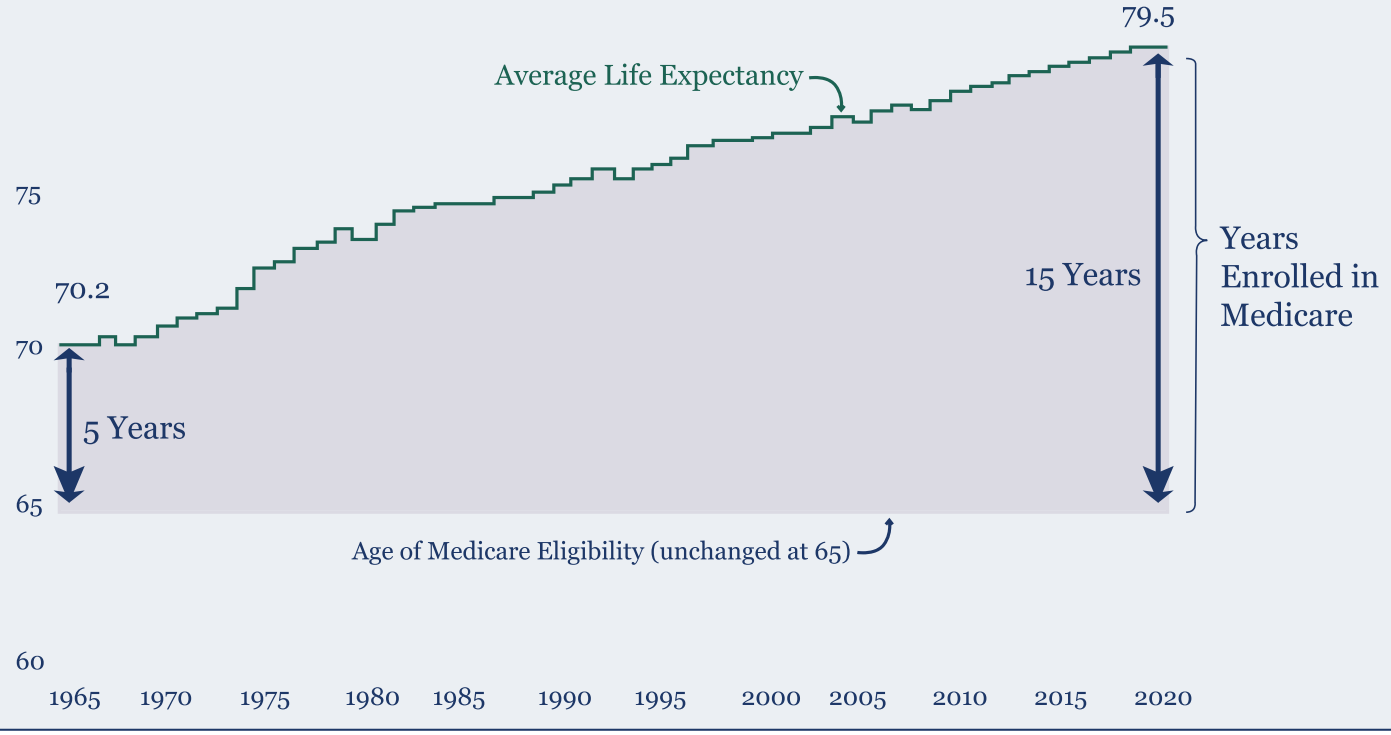
Health care costs will be one of your largest expenses in retirement. How large? Retirees should be prepared to pay an incredible $220,000 for health care.[6]

Fortunately, Medicare is an option to reduce these costs. Every American needs to sign up at age 65. However, navigating the Medicare maze can be confusing and frustrating. Making the wrong decision could mean you are overpaying for (or don't have enough) coverage.

With so many options—Medicare Advantage Plans (Part C), Medicare Prescription Drug Plans (Part D), Medicare Supplement Plans, and Medicare Special Needs Plans (SNPs)—you'll probably need help choosing what option to take and how to get enough coverage.

Increased Life Expectancy Means More Years Taking Medicare

The age of Medicare eligibility is 65 and has been since the program started. When Medicare was created in 1965, the average life expectancy was 70.2 years. Today's life expectancy is 78.8 years and rising. That means those collecting Medicare benefits do so for almost three times longer than when the program began.



Note: Some figures from 2009 through 2020 have been extrapolated.
Source for life expectancy: U.S. Census Bureau.

[6] Carolyn McClanahan, M.D. "Retirees: Prepare to Shell out $220K for Health Care." CNBC. http://www.cnbc.com/id/102480352 (Accessed 22, 2015).

Planning Your Retirement with Thayer Partners

Still have questions? Not sure your portfolio is properly diversified? Want to maximize your Social Security income? Uncertain if you have the best-performing investments or worried you are paying for market underperformance? Want to learn more about FDIC-insured CDs that could provide you with market growth while protecting 100% of your principal? Contact Thayer Partners to find out how we can help you achieve the secure and comfortable retirement you deserve.

Ensure You Have Enough Money
to Live Comfortably in Retirement

Call Thayer Partners today at 617-275-5432
to start putting your plan in place.

Thayer Partners, LLC
100 High Street
Westwood, MA 02090

Phone: 617-275-5430
Fax: 617-275-5431
info@thayerpartnersllc.com
thayerpartnersllc.com

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An actively managed investment fund is a fund in which a manager or management team makes decisions about how to invest the fund's money. Such decisions are made in an attempt to do better than the market and involve actively choosing which investments to purchase, hold, and sell for the fund. The fund manager performs an analysis using in-depth techniques and methods that may involve numerous investment options. The goal of an actively managed fund is to perform better than the specific market index with which the fund is being compared. Passively managed funds, such as index funds or exchange-traded funds, typically invest in the same securities that make up a particular market index in an attempt to match the performance of that index. Because there is less work involved with managing passive funds, they tend to have lower fees than actively managed funds. A passively managed fund does not have a management team making investment decisions. Instead, the fund manager creates a fund portfolio that includes most, if not all, of the associated index's holdings with the goal of trying to achieve the same returns as the index. Instead of making numerous and frequent trades, which occurs with active management, passively managed funds typically hold onto their underlying securities for the long run. Long-term growth and portfolio diversity, which can help minimize risk, are key advantages of passively managed funds. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results. Diversification does not assure a profit or protect against loss in declining markets, and diversification cannot guarantee that any objective or goal will be achieved. Certificates of deposits (CDs) typically offer a fixed rate of return if held to maturity, are generally insured by the FDIC or another government agency, and may impose a penalty for early withdrawal. Investments in floating-rate securities are subject to significant credit, interest rate, valuation, liquidity, and inflation risk. Floating-rate securities tend to attract investors during periods when interest rates are rising but may be less attractive when interest rates are falling. Floating-rate securities have a variable interest rate that will go up and down, or 'float,' to reflect changes in current market rates.

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