

HOW MUCH IS ENOUGH PRE- AND POST-RETIREMENT PLANNING



Presented by:

Diane M. Pearson, CFP® , PPC™ , CDFIA™



Diane M. Pearson, CFP®[®], PPC™[™], CDFA™[™]

- **Diane M. Pearson, CFP®[®], PPC™[™], CDFA™[™] is an Advisor and Shareholder with Legend Financial Advisors, Inc.® She has over 20 years experience in the financial advisory profession.**
- **Diane has been selected three times by *Worth* magazine as one of “The Top 250 Wealth Advisors” in the country.**
- **Diane is one of the first financial advisors in the country to earn the Professional Plan Consultants™ (PPC™) designation, recognizing her commitment to education and service excellence in the qualified retirement planning industry.**
- **She has also been awarded the Certified Divorce Financial Analyst™ (CDFA™) professional designation. As a CDFA™, she is qualified to serve as a financial expert on divorce cases, present data to support an argument, and educate clients on the short- and long-term financial implications of different divorce settlement proposals.**
- **Diane is a member of The National Association of Women Business Owners (NAWBO), where she is the Finance Director for the Pittsburgh Chapter. She has also been selected as the Pittsburgh Chapter of NAWBO’s “Woman Business Owner of the Year” for 2004 as well as the “Woman Business Professional Associate of the Year” for 2007.**
- **Diane has also authored a landmark article entitled “Pre-59½ Distributions—Careful Analysis Is Required”, regarding retirement distribution planning. She has also been a frequent guest speaker on various radio and Web site broadcasts.**
- **Diane is a frequent guest featured on Pittsburgh Business Radio (WMNY 1360 AM) and for their “Women Mean Business” show discussing headlines in the region about issues impacting women in business.**

With People Living Longer, We'll Have to Work Longer



*"If we take a late retirement and an
early death, we'll just squeak by."*

ONLINE RETIREMENT CALCULATORS

Current Age

Current Income

Spouse's Income

Current Savings

Expected Inflation

Retirement Age

Income replacement at retirement

Pre-retirement investment return

Post-retirement investment return

Other Sources of Income:

Social Security

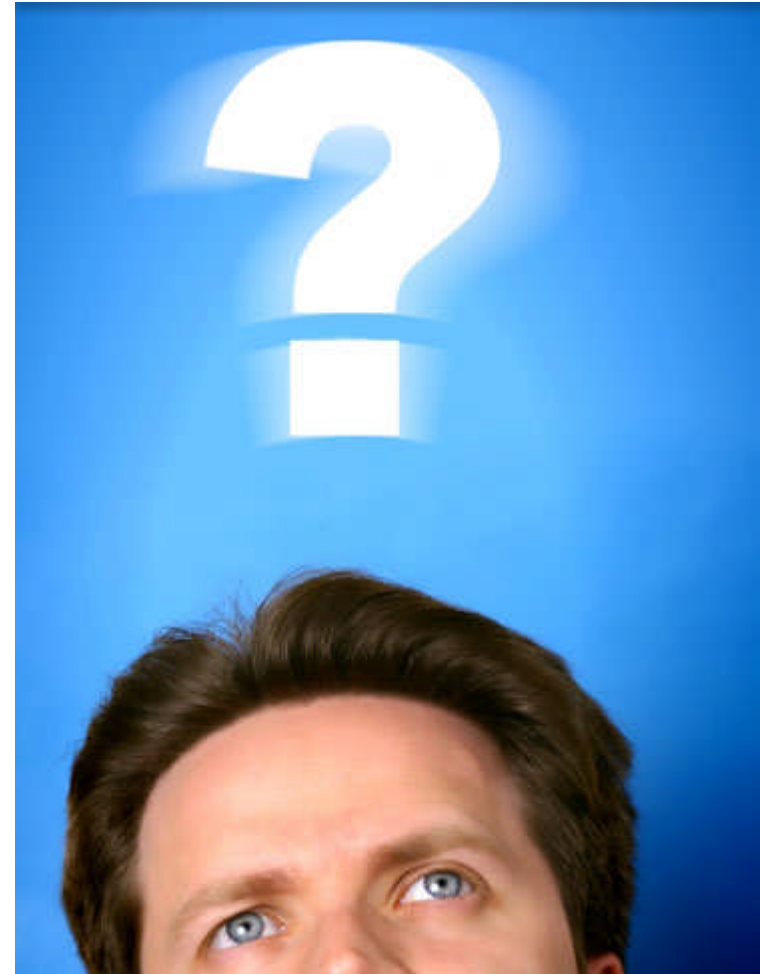
Pension

Annuity

Marital status

WHAT YOU NEED TO CONSIDER

1. **What do you envision for your retirement?**
2. **Saving**
3. **Investing and evaluating regularly**
4. **Sources of Income**
5. **Expenses**
6. **Annual withdrawal rate**
7. **Insurance**





SAVINGS GUIDELINES FOR 80% OF PRE-RETIREMENT INCOME

If you're in your 20s: Save 10-15 percent of your income.

If you're in your 30s: Save 15-25 percent of your income.

If you're in your early 40s: Save 25-35 percent of your income — a pretty sizeable chunk!

If you're 45 or older, the percentages get really big. A 46-year-old, for example, will need to save about 40 percent of income; someone over 50 who is just starting to save will need to set aside about 60 percent of their income.



SECULAR BEAR MARKET WATCH

April 1, 2000 to July 31, 2013
(13 years and 4 months)

	<u>Annual Compound Return</u>	<u>Total Return</u>
Consumer Price Index (Inflation)	2.36%	36.45%
90-Day Treasury Bills Index-Total Return	2.06%	31.18%
Barclays Aggregate Bond Index-Total Return	5.77%	111.44%
HFRX Global Hedge Fund Index	2.92%	46.77%
S&P 500 Index (U.S. Stock Market)	2.82%	44.84%
MSCI EAFE Index (Developed Foreign Equities)	3.07%	49.78%
MSCI Emerging Market Index (Equities)	7.73%	170.17%
Newedge CTA Index (Managed Futures)	5.07%	93.39%
Dow Jones–UBS Commodity Index-Total Return (USD)**	1.87%	28.05%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	6.64%	135.93%
Gold Bullion	12.32%	371.41%

* Compound and Total Returns include reinvested dividends. MSCI Indexes do not include dividends prior to 2002. Newedge Index is equally-weighted.

**USD = U.S. Dollar

Source: Bloomberg Investment Service

As of: July 31, 2013

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SECULAR BEAR MARKET WATCH (CONTINUED)

**April 1, 2000 to July 31, 2013
(13 years and 4 months)**

Note: During Secular Bear markets U.S. Stocks have historically returned a little more than inflation or a little less than inflation—plus or minus 1.50%—and generally last between 15 to 25 years. The last Secular Bear market (1966 to 1982) lasted 17 years and underperformed inflation by approximately one-half of one percent per year. The other Secular Bear markets since 1900 were 1901 to 1920 and 1929 to 1949. In both cases, the U.S. Stock market outperformed inflation by approximately 1.50% per year. All of the aforementioned performance numbers are pre-tax.

The performance of the U.S. Stock market so far in the current period (April 1, 2000 to the present) certainly appears to indicate that we are in a Secular Bear market. Long-term returns (over the next 10 years) for the S&P 500 will probably be slightly better than the last 13 years and 4 months. Current 10 year normalized P/Es (long-term valuations) indicate approximate annual compound returns of slightly less than 3.00% over the next 10 years. Of course during the next 10 years, returns during various periods will be significantly higher and lower than the expected return. For example, the more the stock market rises in the near term, the less returns after that period will be and vice versa.

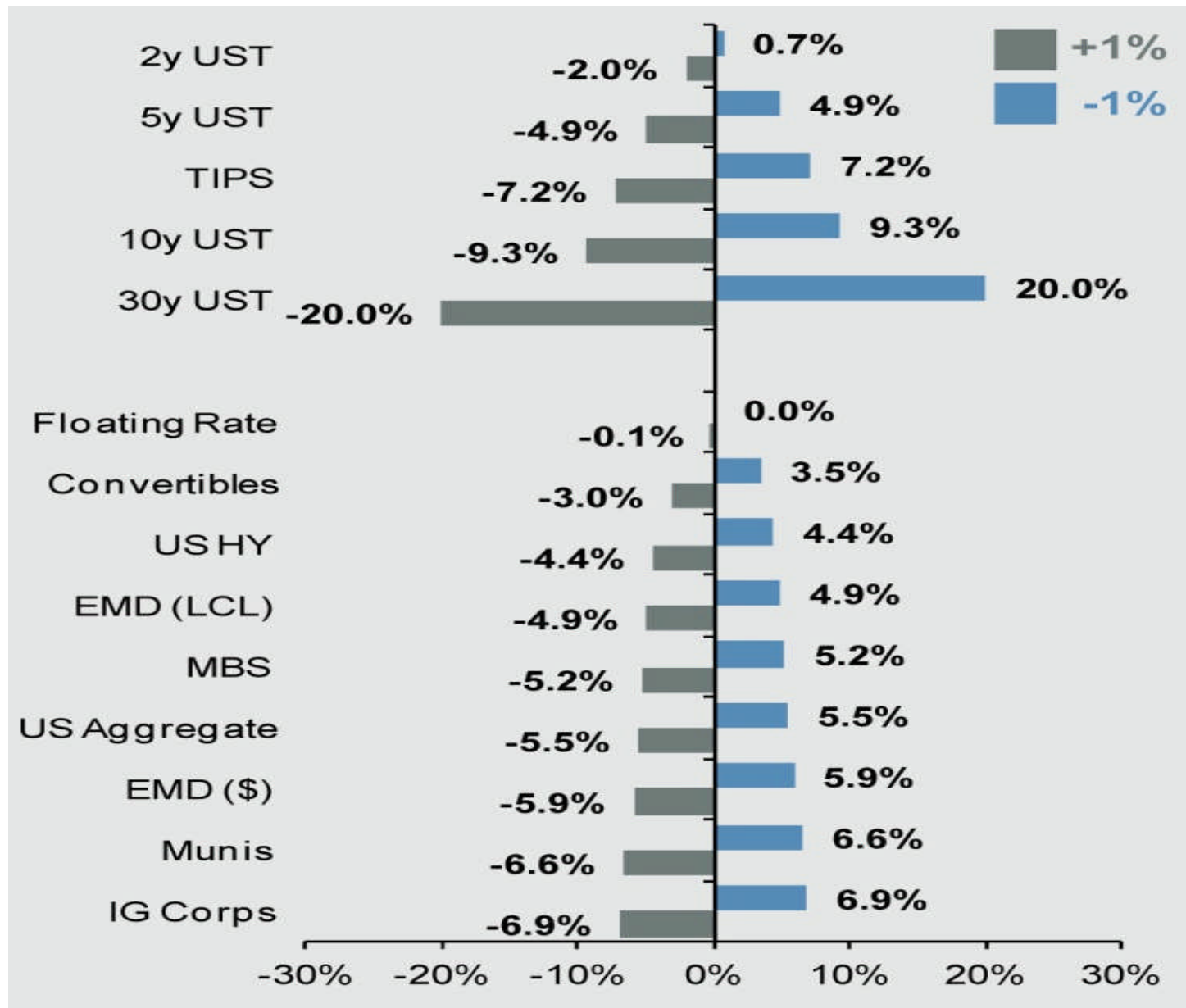
FIXED INCOME YIELDS AND RETURNS

US Treasuries	# of issues	Correlation to 10-year	Avg. Maturity	Yield		Return	
				6/30/2013	6/30/2012	2Q13	YTD 2013
2-Year	77	0.69	2 years	0.36%	0.33%	-0.09%	0.00%
5-Year	60	0.92	5	1.41%	0.72%	-2.43%	-2.26%
10-Year	20	1.00	10	2.52%	1.67%	-4.57%	-4.87%
30-Year	18	0.92	30	3.52%	2.76%	-6.13%	-9.01%
TIPS	34	0.63	10	0.53%	-0.46%	-7.05%	-7.39%
Sector							
Broad Market	8,413	0.88	7.5 years	2.35%	1.98%	-2.32%	-2.44%
MBS	766	0.83	7.1	3.12%	2.44%	-1.96%	-2.01%
Municipals	9,054	0.54	9.9	2.79%	2.26%	-3.11%	-2.77%
Corporates	4,632	0.53	10.2	3.35%	3.27%	-3.31%	-3.41%
High Yield	2,057	-0.19	6.7	6.66%	7.35%	-1.44%	1.42%
Floating Rate	31	-0.21	2.9	1.64%	3.16%	-0.15%	1.03%
Convertibles	490	-0.29	--	1.09%	0.90%	1.80%	9.24%
EMD (\$)	1,125	0.25	9.3	5.40%	5.44%	-5.14%	-6.52%
EMD (LCL)	460	0.03	6.9	5.55%	5.57%	-6.48%	-6.16%

As of: June 30, 2013

Source: U.S. Treasury, Barclays Capital, FactSet, J.P. Morgan Asset Management
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PRICE IMPACT OF A 1% RISE/FALL IN INTEREST RATES*

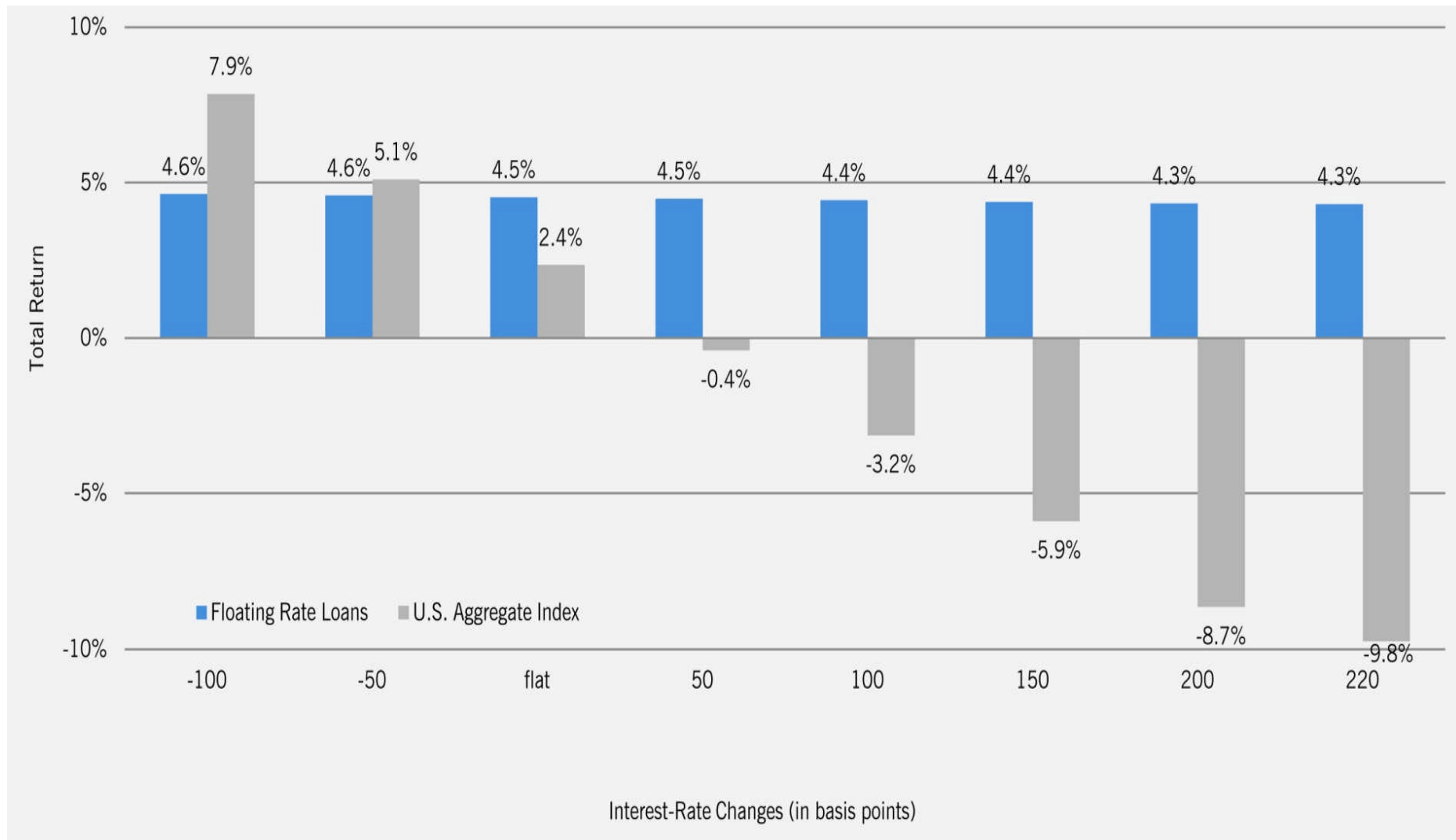


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FLOATING-RATE LOANS - THE FUTURE: WILL RATES RISE, STAY LEVEL OR FALL?

Loans Vs. Bonds: Hypothetical Returns In Various Rate Scenarios

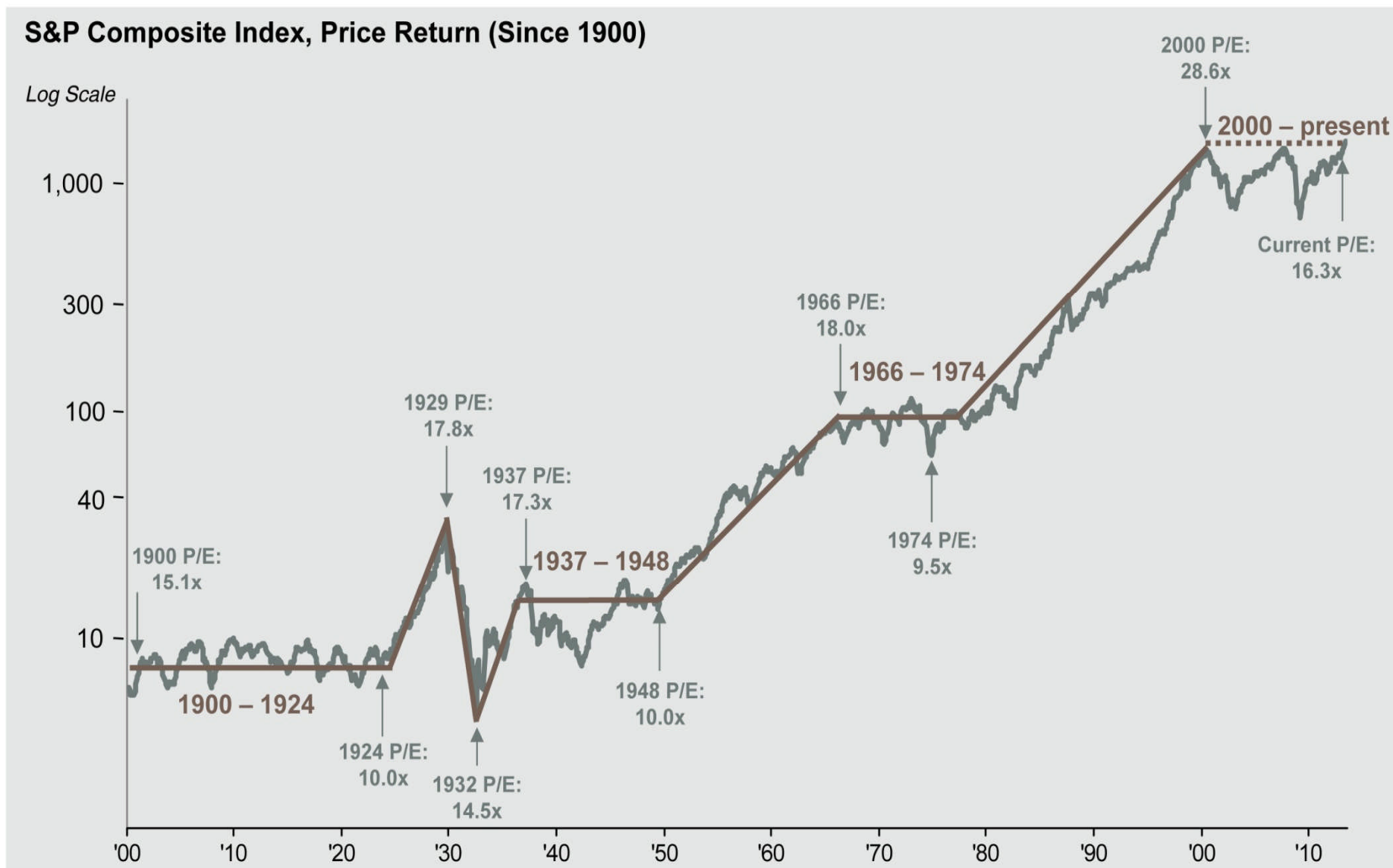


Bonds are represented by the Barclays Capital U.S Aggregate Index, with a yield of 2.4% and duration of 5.5 years. For loans, we use the S&P/LSTA Index, with a net yield of 4.5%, based on a market yield of 5.2%, reduced by 0.7% to account for expected defaults and recoveries—the average level observed by Eaton Vance over 20 years. Duration is 0.1 years. Calculations are based on standard duration formula, assuming instantaneous rises in interest rates and adjustments of benchmark yields on loans. Chart represents projections based on various interest rate scenarios but is not intended to predict any particular scenario. The information is based, in part, hypothetical assumptions and the experience of Eaton Vance. Certain of the assumptions have been made for modeling purposes and are unlikely to be realized. Changes in the assumptions and scenarios may have a material impact on the information shown.

As of: June 30, 2013

Source: Eaton Vance Floating-Rate Loan Funds
Strategy Review Second Quarter 2013

A HISTORY OF SECULAR BEAR MARKETS SINCE 1900



Note: Data shown in log scale to best illustrate long-term patterns. P/E ratios shown at price peaks and troughs use trailing four quarters of reported earnings and are shown as a one year average

As of: June 30, 2013

Source: FactSet, J.P. Morgan Asset Management

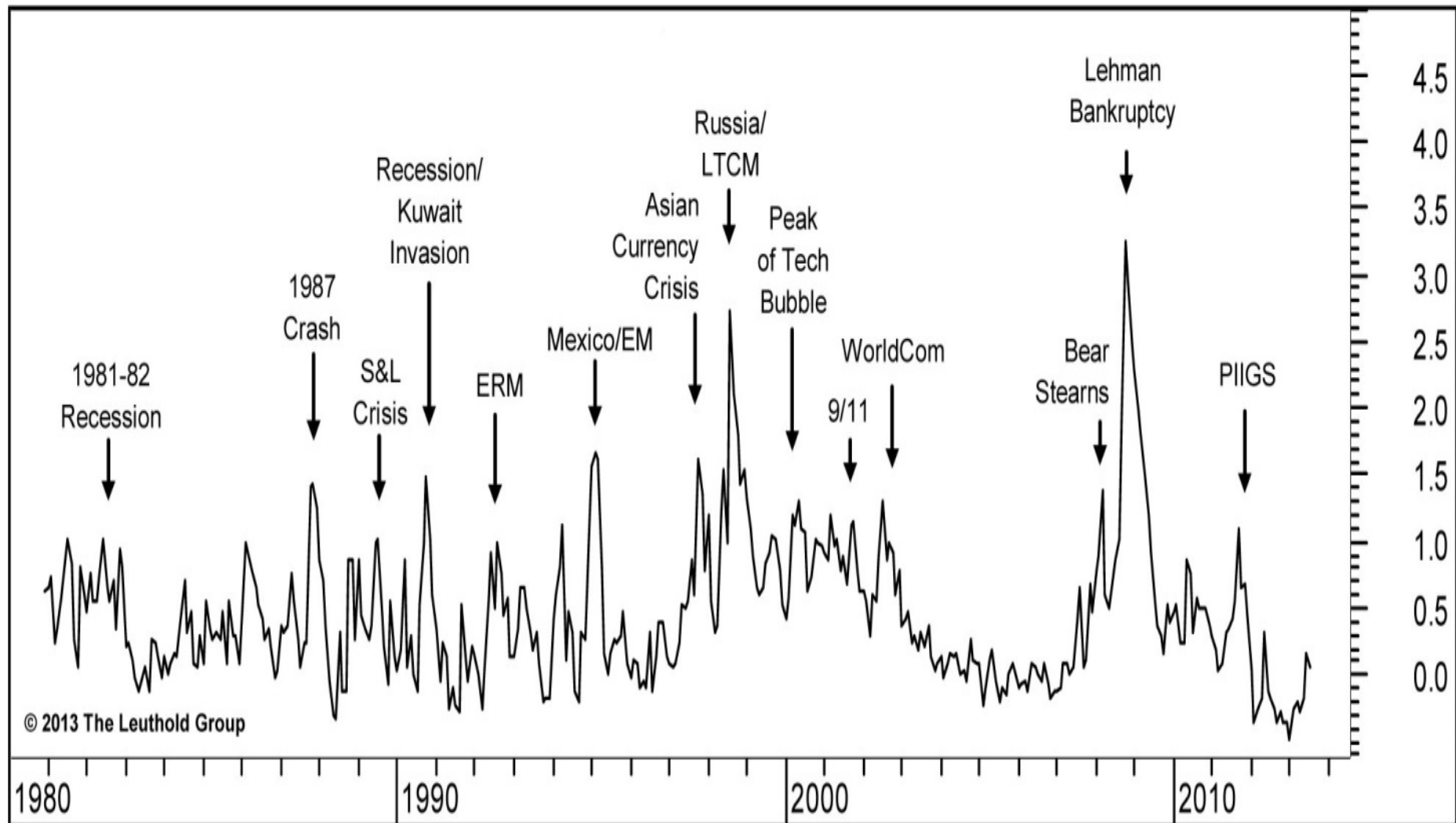
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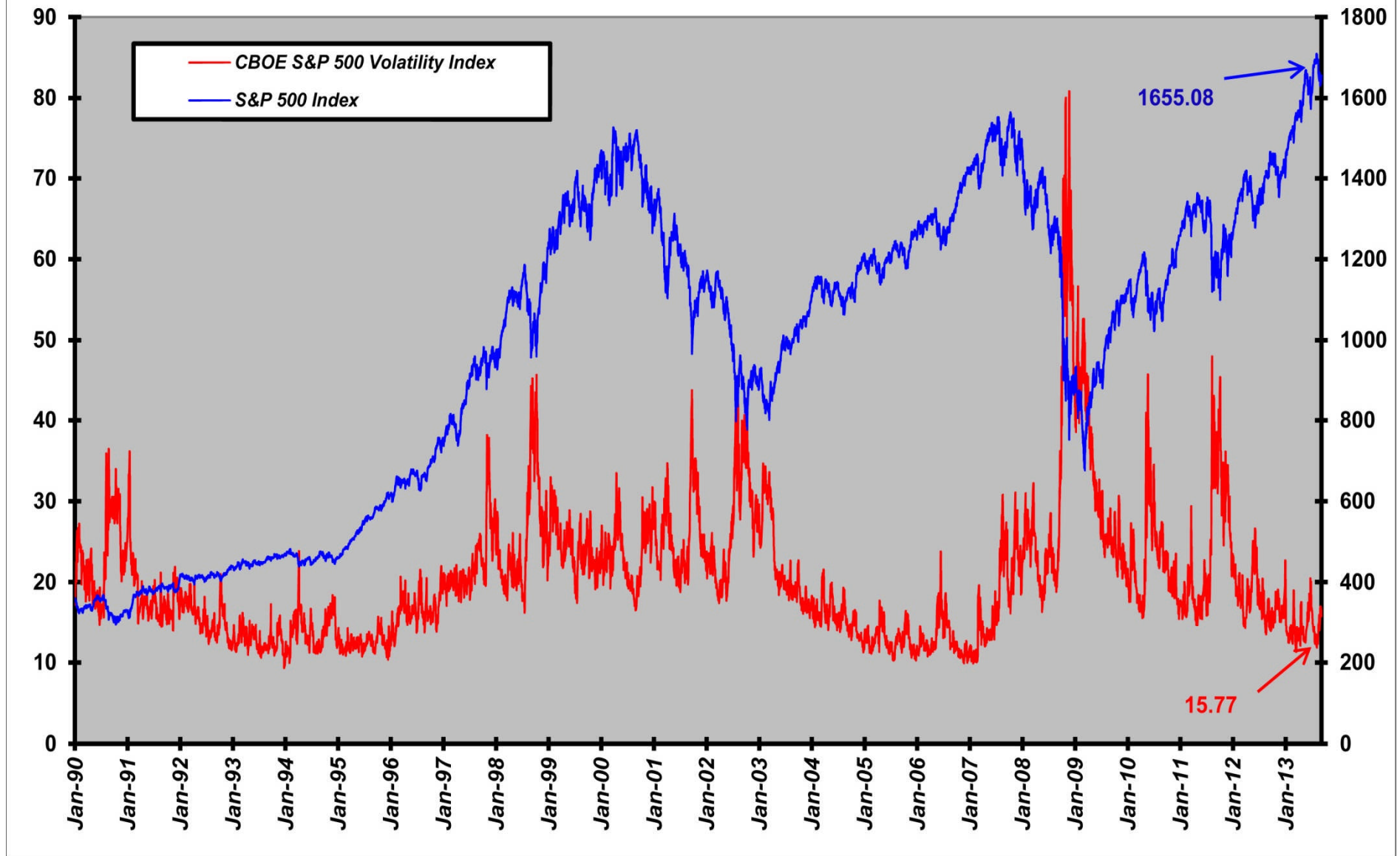
RISK IS REVERSING DOWNWARD FROM ALREADY LOW LEVELS

MONTHLY RISK AVERSION INDEX

Note: The Risk Aversion Index combines ten market-based measures including various credit and swap spreads, implied volatility, currency movements, commodity prices and relative returns among various high- and low-risk assets.






VOLATILITY INDEX (VIX) AND S&P 500 PERFORMANCE JANUARY 1, 1990 - SEPTEMBER 5, 2013



As of: September 5, 2013

SOURCE: BLOOMBERG INVESTMENT SERVICE
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60/40 INVESTORS WERE TREATED KINDLY IN THE PAST

Expected Return Model for a 60.0% Equity / 40.0% Bond Portfolio									
Decades	Beginning Dividend Yield	Real Long-Term EPS Growth	Implied Inflation	Expected Equity Return	Beginning Bond Yield	Expected 60/40 Return	Realized 60/40 Return	Expected Minus Realized	
1871-1880	5.9%	1.7%	2.4%	10.3%	5.3%	8.3%	8.3%	0.0%	
1881-1890	4.5%	1.7%	0.8%	7.1%	3.7%	5.7%	3.1%	2.6%	
1891-1900	4.8%	1.7%	0.5%	7.1%	3.4%	5.6%	6.9%	-1.3%	
1901-1910	4.4%	1.7%	0.0%	6.1%	2.9%	4.8%	5.7%	-0.9%	
1911-1920	5.2%	1.7%	0.4%	7.5%	3.3%	5.8%	2.9%	2.9%	
1921-1930	7.5%	1.7%	2.8%	12.4%	5.7%	9.7%	11.6%	-1.9%	
1931-1940	6.3%	1.7%	0.1%	8.2%	3.0%	6.1%	3.9%	2.2%	
1941-1950	6.4%	1.7%	-1.3%	6.7%	1.6%	4.7%	8.6%	-3.9%	
1951-1960	7.4%	1.7%	-0.7%	8.5%	2.2%	6.0%	10.6%	-4.6%	
1961-1970	3.4%	1.7%	0.9%	6.2%	3.8%	5.3%	6.3%	-1.0%	
1971-1980	3.5%	1.7%	3.5%	8.9%	6.4%	7.9%	6.9%	1.1%	
1981-1990	4.6%	1.7%	9.9%	17.0%	12.8%	15.3%	14.3%	1.0%	
1991-2000	3.7%	1.7%	5.2%	10.9%	8.1%	9.8%	14.4%	-4.6%	
2001-2010	1.2%	1.7%	2.3%	5.4%	5.2%	5.3%	3.8%	1.6%	
Average	4.9%	1.7%	1.9%	8.7%	4.8%	7.2%	7.6%	-0.5%	
Std Deviation							3.9%	2.6%	
Current	2.3%		1.7%		2.0%		6.0%	2.0%	4.4%

As of: August 29, 2011

Source: Robert Shiller, Federal Reserve, BEA, Research Affiliates, LLC
via Morningstar and Bloomberg

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INCOME DURING RETIREMENT

- **Social Security**
 - Evaluate taking your benefit sooner than later
 - Contact the Social Security Administration at every age milestone—62, 65, and at your normal retirement date



OTHER SOURCES OF INCOME

Retirement Accounts

Roth IRAs

Pensions

Paid off house

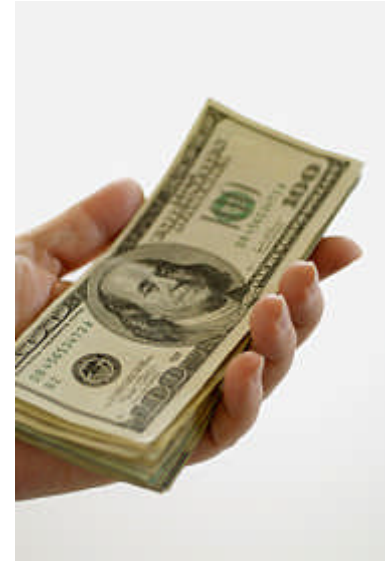
Railroad Retirement Benefits

Investments

Savings accounts and CDs

Part-time work

Annuities



ANNUITIES:

Pro- Fixed Payout

- Tax Deferred Savings**
- Protection from Probate and Creditors**

Con- No Inflation Protection

- Surrender Charges**
- Commissions**
- Costly**



EXPENSES

80% Of Your Pre-retirement Income?

Expenses while working

- Taxes, commuting, savings, clothing, liabilities, children's education

Expenses while retired

- Taxes, health-care costs, liabilities
- Dining out, travel, hobbies, entertainment



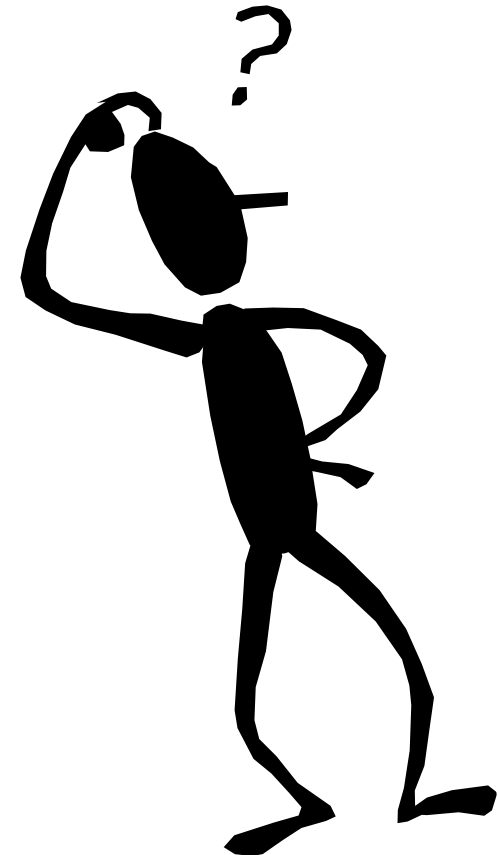
OTHER EXPENSES TO CONSIDER

- **Inflation**
- **Your parents may require assistance**
- **Your children may require assistance**
- **Moving costs**
- **Extended long-term care**



WHAT TO DO IF YOU DON'T HAVE ENOUGH ASSETS SAVED FOR RETIREMENT

1. Make more retirement plan contributions.
2. Readjust retirement expectations or standard of living in retirement.
3. Decrease spending.
4. Work longer.
5. Work part-time.
6. Review your investment strategy.



EXPENSES TO DITCH

- **Second car or luxury car**
- **Lavish vacations**
- **Second home**
- **Downsize your home**
- **Landline**
- **Adult children**



ANNUAL WITHDRAWAL RATE CALCULATION

<u>Year 1</u>		<u>Annual Withdrawal Rate</u>
Portfolio Balance At Beginning of Year 1	\$1,000,000.00	
Annual Cash Flow Needs	<u>-\$50,000.00</u>	-5.00%
Portfolio Balance	\$950,000.00	
Portfolio Performance	<u>-10.00%</u>	
Portfolio Balance at End of Year 1	\$855,000.00	
<hr/>		
<u>Year 2</u>		<u>Annual Withdrawal Rate</u>
Portfolio Balance At Beginning of Year 2	\$855,000.00	
Annual Cash Flow Needs	<u>-\$50,000.00</u>	-5.85%
Portfolio Balance	\$805,000.00	
Portfolio Performance	<u>-10.00%</u>	
Portfolio Balance at End of Year 2	\$724,500.00	
<hr/>		
<u>Year 3</u>		<u>Annual Withdrawal Rate</u>
Portfolio Balance At Beginning of Year 3	\$724,500.00	
Annual Cash Flow Needs	<u>-\$50,000.00</u>	-6.90%
Portfolio Balance	\$674,500.00	
Portfolio Performance	<u>-0.00%</u>	
Portfolio Balance at End of Year 3	\$674,500.00	

IN RETIREMENT:

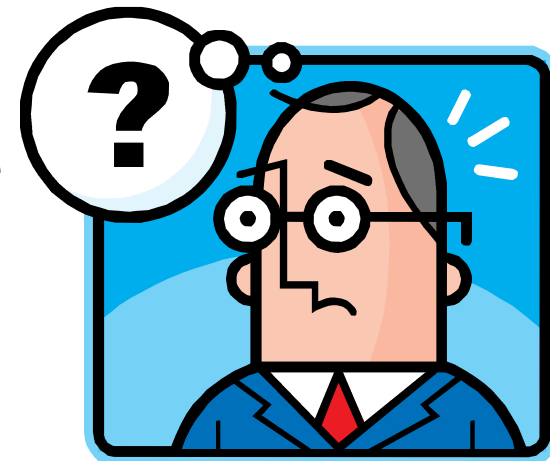
Do you need:

Medical Insurance

Life Insurance

Disability Insurance

Long Term Care Insurance



WHAT MEDICARE COVERS

- **Part A (Hospital) - Inpatient care in hospitals, skilled nursing facility, hospice and home health care**
- **Part B (Medical) – Doctor and other providers’ services, outpatient care, durable medical equipment, home health care, and some preventive services**
- **Part C (Medigap or Supplemental) – many options of additional coverage**
- **Part D (Drugs) – covers drug cost**

MEDICARE PART B MONTHLY PREMIUM

	Beneficiaries who file an individual tax return with income	Beneficiaries who file a joint tax return with income
Your 2013 Part B Monthly Premium Is	If your Yearly Income Is	
\$104.90	\$85,000 or less	\$170,000 or less
\$146.90	Above \$85,000 up to \$107,000	Above \$170,000 up to \$214,000
\$209.80	Above \$107,000 up to \$160,000	Above \$214,000 up to \$320,000
\$272.70	Above \$160,000 up to \$214,000	Above \$320,000 up to \$428,000
\$335.70	Above \$214,000	Above \$428,000

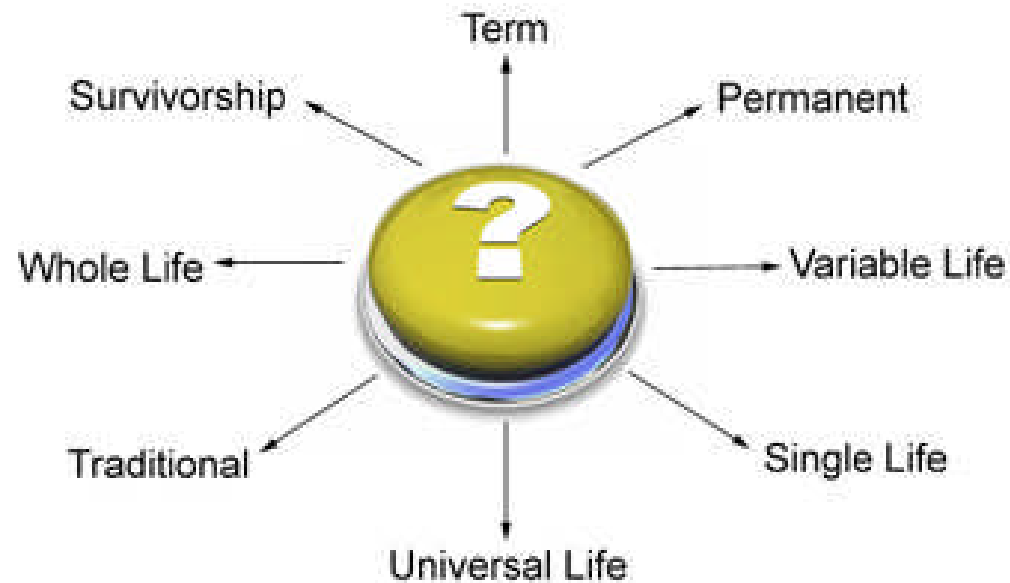
LIFE INSURANCE

- Insure against financial loss or hardship for someone else
- Replace the cost of Federal Estate/Inheritance Taxes



TYPES OF LIFE INSURANCE

- **Whole Life – an investment?**
 - **Cash Value**
 - **Dividends**
- **Term Life – a contract**



DISABILITY INSURANCE

- **Insure against financial loss for yourself and family**
- **Replace lost income**



LONG TERM CARE INSURANCE

- Covers care generally not covered by [health insurance](#), [Medicare](#), or [Medicaid](#) for Nursing home costs, Assisted living, Home health care, and Adult daycare
- Benefits are based on a daily/monthly cost
- Length of coverage
- Elimination Period
- Inflation
- Shared Care Rider
- Guaranteed Renewable



LONG TERM CARE INSURANCE

- **Medicare picks up 11.0% of nursing home costs nationally, only partially covers the costs of the first 100 days in a nursing home, and only provides this coverage if the skilled care is preceded by a stay in the hospital.**
- **Medicaid covers over 70.0% of long-term care costs nationally, but requires spending down substantially all assets and directing all income to pay toward their long term care costs.**
- **The Veteran's Administration does provide benefits, if you qualify.**

LONG-TERM CARE INSURANCE SUMMARY OF NATIONAL FINDINGS*

	Nursing Homes		Assisted Living Communities	Home Care		Adult Day Services
	Semi-Private Room	Private Room		Home Health Aide	Homemaker	
Rate Type	Daily		Monthly	Hourly		Daily
2012 Average Rate	\$222	\$248	\$3,550	\$21	\$20	\$70
2011 Average Rate	\$214	\$239	\$3,477	\$21	\$19	\$70
\$/% Increase from 2011	\$8 (3.7%)	\$9 (3.8%)	\$73 (2.1%)	\$0 (0%)	\$1 (5.3%)	\$0 (0%)
2012 Annual Rate	\$81,030	\$90,520	\$42,600	\$21,840	\$20,800	\$18,200

*Costs are rounded to the nearest dollar.

LONG-TERM CARE COST ANALYSIS

Daily Cost:
\$200.00
Annual Inflation Rate:
6%
Age:
50

<u>Age</u>	<u>Years</u>	<u>Daily Cost</u>		<u>Days</u>	<u>Annual Cost</u>	<u>Cumulative Cost</u>
50	1	200	x	365	73,000	73,000
51	2				77,380	150,380
52	3				82,023	232,403
53	4				86,944	319,347
54	5				92,161	411,508
55	6				97,690	509,198
56	7				103,552	612,750
57	8				109,765	722,515
58	9				116,351	838,866
59	10				123,332	962,198
60	11				130,732	1,092,930
61	12				138,576	1,231,506
62	13				146,890	1,378,396
63	14				155,704	1,534,100
64	15				165,046	1,699,146
65	16				174,949	1,874,095
66	17				185,446	2,059,540
67	18				196,572	2,256,113
68	19				208,367	2,464,479
69	20				220,869	2,685,348
70	21				234,121	2,919,469
71	22				248,168	3,167,637
72	23				263,058	3,430,695
73	24				278,842	3,709,537
74	25				295,572	4,005,109

**Retirement does not require
winning the lottery, but it does
require planning!**

Shall We Start Now?



QUESTIONS AND ANSWERS



CONTACT INFORMATION



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