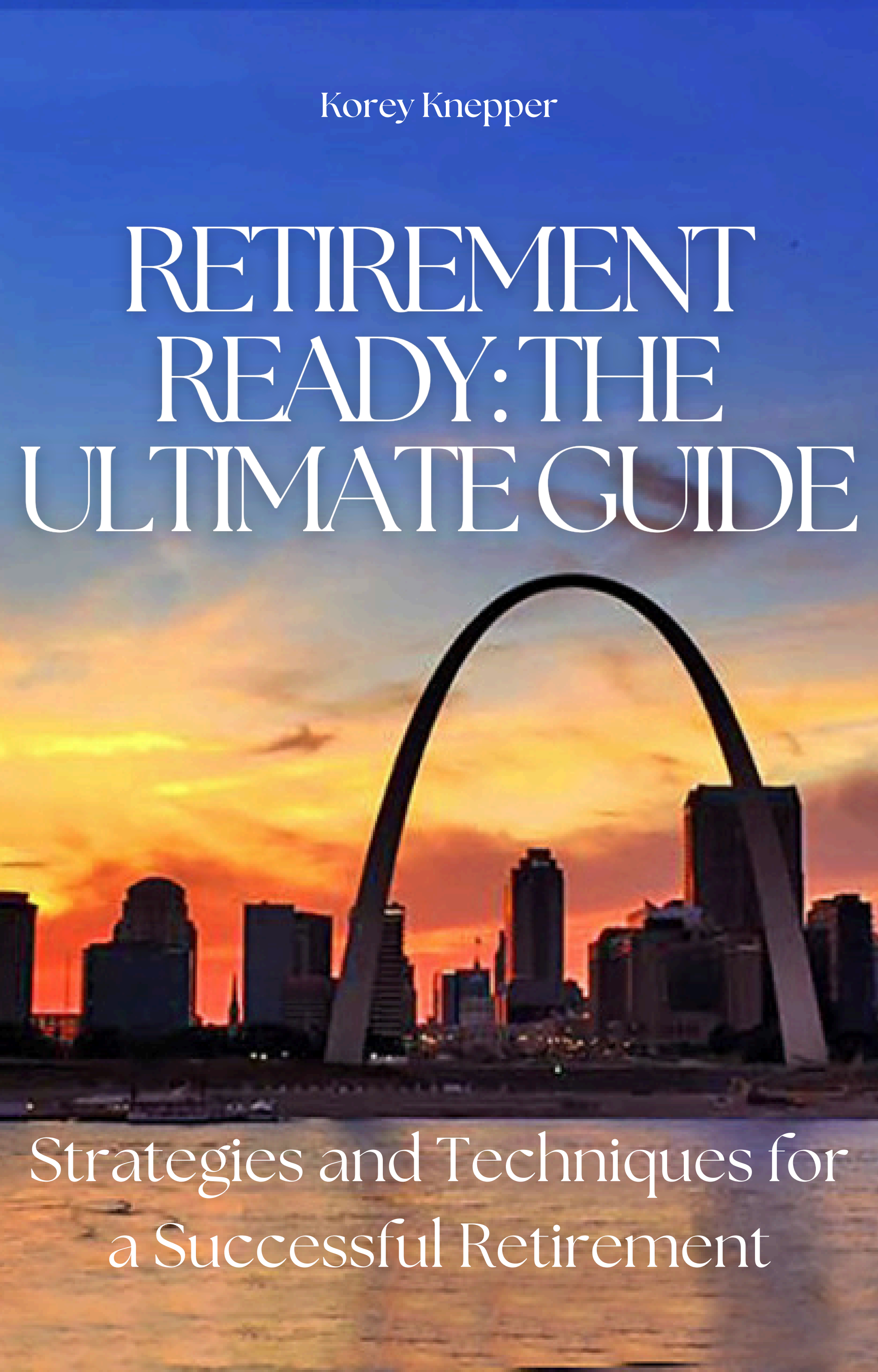
Korey Knepper

RETIREMENT READY: THE ULTIMATE GUIDE



Strategies and Techniques for a Successful Retirement

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Meet Your Retirement Coach, Korey Knepper

This eBook is intended to give people that are between 3 and 8 years away from retirement an idea of how to transition to retirement on the financial side. We will discuss multiple strategies for pre-retirement, and the early stages of retirement. I am your coach, Korey Knepper. I work as an independent fiduciary financial advisor, and previously taught with the Council of Financial Educators. With COFE, I taught specifically Retirement Income Planning. I will be bringing some of those concepts and strategies in the pages ahead. If you have any questions about the material covered, you can always reach out to me at korey@sdsmithfinancial.com.

“I truly believe that financial freedom is achievable for anyone who has the time, discipline, and coaching to get there.”

Korey Knepper

About the Author

Korey Knepper was born and raised in the St. Louis area and has B.S. in Financial Services from Maryville University. He is also a Navy Veteran, and enjoys spending time with his lovely wife Christie, and their wonderful son Adam. In his free time he enjoys bowling, basketball, and church league softball.

You can use this link to set up a meeting to start working with Korey on your specific retirement plan. Thank you for reading.
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CHAPTER ONE

Can I Retire?

Have you ever been a part of a crowd leaving Busch Stadium or another sports venue? The crowd flows directly to the exits, and allows for a smooth transfer out of the stadium. This doesn't happen by accident, there was careful planning and studying done on crowd movement to allow this to happen. While it is impressive the adaptability of people to find the exit rather quickly, even if it is their first time in the venue, it is all because of careful planning.

This is a great way to look at retirement planning. While most focus on the formula, which we will get to, the plan, and adaptability of that plan is far more important. The math is important, and a wonderful starting point, but it is not the end-all-be-all of retirement planning, it is just a number that puts you in the ballpark of where you need to be.

The primary formula uses a couple of things, a gap analysis, and a safe/stable withdraw percentage. I know math can scare some people away, but trust me, this is a simple formula that you can allow you to find your "ballpark number" in less than ten minutes. First, lets discuss the terms of the formula.

Terms

The Gap Terms:

- **Expenses:** Take into consideration things like health care costs, and obligations falling off, like a mortgage for example. If you want to move forward without going through your bank statements, a good default is about 85% of your current income.
- **Income:** Income in retirement is different for everyone. Social Security is where most people start, if you don't know this number, you can go to ssa.gov to find an estimate. After that, add on any pensions or other passive income that does not come from investments. Things like rental income or business residuals could be added here.
- **Gap:** Now that we have both expenses and income, it is time to find the gap. This should be done with a 12-month calculation in mind. We subtract our expenses from our income to find our gap.

Example: A couple makes a combined income of $150,000 a year and want to maintain their current lifestyle. If we use the 85% default, they would have an expenses number of $127,500. They are both going to receive social security, and one has a small pension plan. Their total income in retirement is $78,500. So, 127,500 - 78,500 leaves a gap to cover of $49,000. This is the amount we need to withdraw from assets in the first year of retirement.

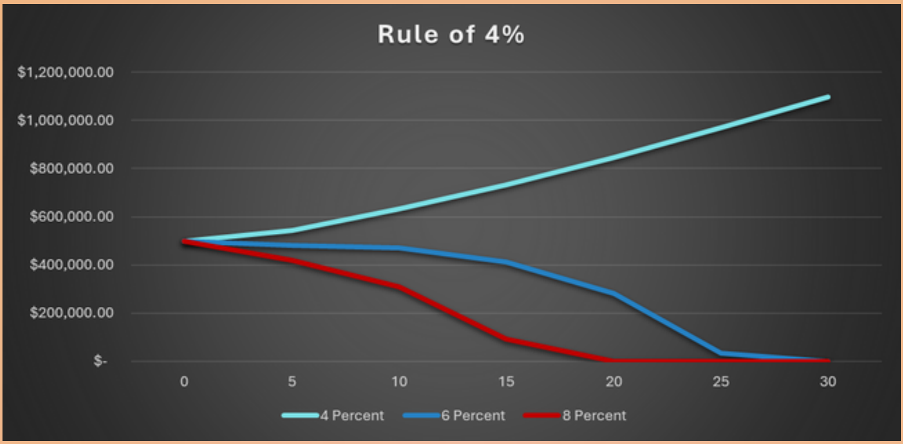
Terms

What Counts as an Asset:

- **Investments:** Stocks, bonds, mutual funds etc. These are in accounts like a 401K, IRA, or brokerage account.
- **Annuities:** Variable annuities, fixed annuities, registered index linked annuities, and equity indexed annuities should all be considered
- **Cash and Cash Alternatives:** Money Market funds, CDs, and checking and savings accounts.
- **.Alternative Investments:** Things like Real Estate Investment Trusts (REITs), Rental properties, and DPP Programs.

Once we have our asset number, it is important that we understand the rule of 4%. This is a rule in finance that is debated but is designed to make sure you don't run out of money in retirement. The theory is that if someone is preparing for retirement, they can take out 4% of their assets and continue to see their assets keep pace with inflation. See the chart below, we start out with $500,000 in assets, and over the 30 year retirement, we see three trials. One that takes out 4%, one that takes out 6%, and one that takes out 8%. This illustration uses a growth rate of 7.5%, and an inflation rate of 3.5%.

Rule of 4%



As we can see, the 4% withdrawal allows us to continue to grow our assets in retirement, even with a relatively conservative portfolio, where as the 6% runs out in year 25, and the 8% runs out before year 20.
So, if we know that we are going to want to withdraw 4% of our assets in retirement, and we know what we are going to need to withdraw with our gap, we can come up with a formula to find our number. It looks like this:

GAP/.04 = Assets Needed

Like you read earlier, this number is not set in stone. There are ways to adjust it, for example, doing .045 instead of .04, or lowering expenses in retirement.

Investment Strategies for Pre/Early Retirement

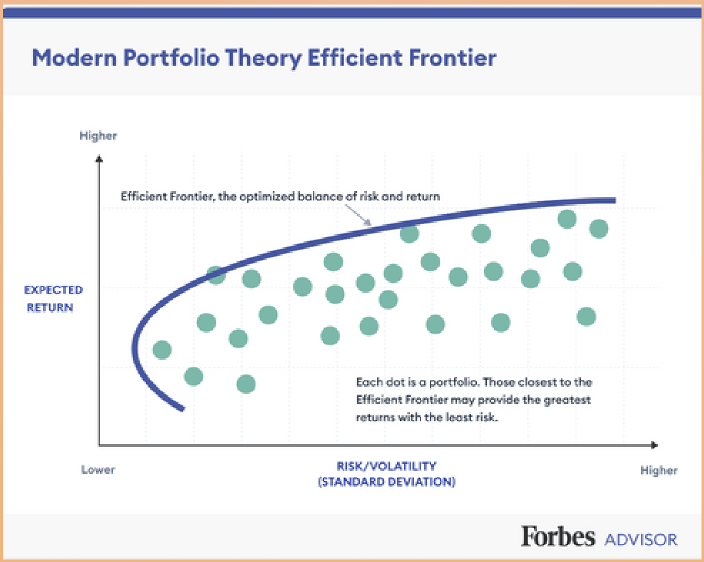
There seem to be countless strategies for investing while approaching retirement. While a lot of them will work, not every hammer works for every nail. It is all about what is right for you and your future. A couple of things we have seen to avoid:

- **Being too conservative:** Moving all your investments into cash or low yield bonds can hurt your long-term portfolio growth.
- **Investing in Life Insurance Only:** Don't get me wrong, life insurance can have its place in a plan, but it is my experience that insurance products are for insuring, not investing.
- **Lack of Diversification:** Having all your investments in one company might seem great when they are doing well, but it can be catastrophic to your portfolio if they experience a downturn. This is called unsystematic risk, which is unnecessary for a portfolio.

These are the primary mistakes that we see that can snowball in the long term. In order to understand how to invest your money properly when approaching retirement, we look at Modern Portfolio Theory. This is a Nobel Prize winning investment theory that is successful because of its simplicity.

Modern Portfolio Theory

Most people have been using Modern Portfolio Theory without even knowing it. It is the basis of how target date funds are formed. As our time horizon gets shorter, we slide to a more conservative side of the efficient frontier. What is the efficient frontier? It is the graph that won this theory's Nobel Prize. The idea that a very diversified portfolio will allow us to have an efficient portfolio. When we determine a risk tolerance, we can give you an expected return off that. <u>An investor will always want the maximum amount of return for a given amount of risk.</u> Or the minimum amount of risk for a given amount of return. If we take our full bond portfolio, and our full stock portfolio, we find a slope that might be unexpected to some. See the graph below:



Investment Techniques for Retirement

As we are nearing retirement we should become more conservative with our investments. How we do that is on a case-by-case basis. Let's look at some different techniques that can be used. These can apply to part, or all your investment portfolio depending on your situation:

- **The 60/40 Portfolio:** This is probably the most famous and most recommended portfolio in the US today. The portfolio is constructed of 60% stocks, and 40% bonds. It is also going to be 60% US and 40% international. If you are currently invested in a target fund with your 401K or IRA, you are most likely already using something like to the 60/40 portfolio.
- **Three Years of Fixed Income:** We discussed finding your GAP earlier and knowing that number is essential to this technique. The process is simple, take your annual gap number and multiply it by 3 and that number is what you invest in a liquid fixed income product, typically a bond fund. The idea behind it comes from the three years being the longest bear (declining) market, which happened from 1946 – 1949, with the average being about 14 months. The stocks grow your portfolio long term during bull (positive) markets, and the bonds protect you in the event of a historic bear market.

Investment Techniques for Retirement Cont.

- **Use High Dividend Producing Stocks:** A high yield stock, or value stock, is a stock that pays a very high dividend to it's shareholders. Value stocks are typically well-established companies that have high amounts of cash on hand, and a steady cash flow. These companies typically perform better during downturns in the market, with the most recent example being in 2022, when the S&P 500 was down 18.1% and the value portion of the S&P 500 only being down about 5.4%. <u>The dividend portion can also increase your income in retirement.</u>
- **Registered Index Linked Annuity:** Undergoing massive changes throughout the finance industry these past couple of years, the RILA has become an excellent weapon in the pre-retirement/early retirement portfolio. It provides the ability to tie your investment to an index, while adding a buffer or floor to your investment. A typical RILA could cost nothing to the investor, allow them uncapped gains in an index like the S&P 500, while the annuity company will cover the first 20% of losses at the end of the life of the contract. Contract terms are typically 6 years, and every annuity company is different, with most having a surrender charge if the investment is withdrawn early.

Investment Techniques for Retirement Cont.

- **Annuity with Guaranteed Income:** Annuities come in all shapes and sizes with many different customizations. They can also get very pricy if you are not careful, paying close to 3% in total is not unheard of, make sure you know what you are paying for. That being said, you can get a guaranteed income benefit from annuities, typically around 5% of the value of the annuity. These can come with step-up basis, allowing your income guarantee to increase while in retirement. This is a way to adjust our formula from earlier if you are having trouble reaching your assets needed.
- **Roth Conversion:** More of an in retirement than pre-retirement technique, the Roth conversion can provide major tax savings in the long run, while providing the ability to grow your investment value. This process is done by taking our pre-tax investments that are subject to required minimum distributions and converting them to Roth. We pay the taxes now, so they aren't subject to RMDs later. A Roth conversion is a taxable event and should be handled with care and precision. If done correctly it can create a generational change for you and your family. If done incorrectly it can result in a hefty tax problem.

Conclusion

Transitioning into the retirement phase of life is an exciting time but can be difficult for many people. Finding a purpose and filling your days can be a struggle. Having a plan in place is a great starting point for closing in on retirement, however, as we know life happens, and plans change. To quote President Eisenhower "Plans are worthless, but planning is everything." Having the plan is great, but having someone working to make sure things go according to plan or have the ability to adjust the plan is incredibly helpful.

Think of it as building your "retirement building", your assets/earnings are your materials, and your tools come from your coach/advisor. You might have enough tools that you don't need an advisor, but the advisor might have tools you don't have that can help. At the end of the day though, it is on you to do the work of implementing the plan and making sure it is successful. Be careful when choosing this person, just because someone says they are a "Financial Professional" doesn't mean they have all of the tools to improve your building. Ask if your advisor is a fiduciary. This requires the advisor to act in the client's best interest and not their own. Whoever you choose, I hope you have a wonderful and successful retirement!

The Retirement Age Flow Chart.

Here is a chart with important age milestones for approaching and living in retirement. The RMD age is currently set to change form 73 to 75 in 2033.

50	IRA/401K CATCH-UP CONTRIBUTION ELIGIBLE
59 1/2	IRA/401K WITHDRAWAL ELLIGIBLE
62	EARLIEST SOCIAL SECURITY AGE
65	MEDICARE ELLIGIBLE
67	FULL RETIREMENT AGE
70	LATEST SOCIAL SECURITY AGE
73/75	REQUIRED MINIMUM DISTRIBUTIONS START

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