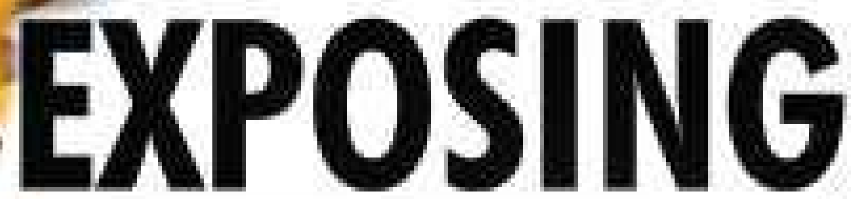

# EXPOSING WALL STREET'S "DIRTY LITTLE SECRET"

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FREE
REPORT

Let's talk about what I consider

# WALL STREET'S
# DIRTY LITTLE SECRET...

It's called *Sequence of Return Risk*, and it can have a devastating effect on your retirement savings. Over the past 22 years of helping hard working Americans, I've personally seen how damaging this typically unknown risk can be to families during their retirement years.

In fact, a close friend of mine saw his "golden years" completely destroyed when Sequence of Return Risk hit his portfolio…and the only solution was for him to drastically change his lifestyle and to go back to work at age 68.

You'll never hear this from Wall Street or the media, but it's real and it affects Americans every day. But before we get into the details, let's talk about some realities of retirement.

In a study done by Insured Retirement Institute, "70% of middle-income Boomers are not very confident about having enough money to live comfortably throughout their retirement years."

When we move into our "golden years," let's face it… the only Certainty is Uncertainty. Our clients have questions such as:

"How long will my nest egg need to stretch?"

"How will I be able to afford the increasing cost of living?"

"Have I saved enough?"

"Will Social Security be there for me?"

"How much will taxes increase in the future?"

"How will I afford Home Care or Nursing Care if I need it?"

"Will there be anything left to leave my kids or grandkids?"

The answers to these questions aren't easy. In fact, there are a lot of unknowns as we enter into the retirement years. But with proper planning, we can address each of these questions by structuring a solid plan that is immune to market risk and most importantly, the Sequence of Return Risk.

First, retirement is really like 20 to 30 years of unemployment. That's a long time to be unemployed. Therefore, you have to make your nest egg stretch that long…or longer. Let's consider some of the "Uncertainty" risks retirees to face today:

## UNCERTAINTY RISKS

### Longevity

The truth is, Americans are living longer than ever before. I was recently in Oakland, CA, and saw a billboard that claimed that the first person in the United States who would live to be age 150 had already been born! Can you imagine stretching your nest egg for 85 years?

Thanks to healthier lifestyles and modern medicine, life expectancies continue to increase in our country. While most consider this a positive, it can also create the risk of retirees outliving their income. For married couples who reach age 65, the probability of one of them living to age:

- 70 is 99%
- 80 is 94%
- 95 is 36%

*Society of Actuaries 2001 Mortality Table

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As we plan for retirement, we need to factor in an extended time horizon for our savings to last.

## Taxes

Do you realize that our nation's debt has just crossed the $18 trillion mark? We are projected to surpass $20 trillion by 2017. Obamacare alone is estimated to add $6.2 trillion in national debt over the next 75 years. There are currently over 8.6 million unemployed Americans, constituting 5.5% of the eligible workforce. In 1945 there were 42 workers for every 1 retiree. Today, there are 2 working Americans for every 1 retiring. Every 9 seconds, another Baby Boomer retires.

It doesn't take a scholar to realize that we are building an empire of debt for our children and grandchildren. Taxes will have to increase in the future. In fact, they have already started. As of January 1, 2015:

- The top marginal federal income tax rate jumped from 35% to 39.6%.
- The top marginal tax rate on long-term capital gains and dividends increased from 15% to 20%.
- Therefore, retirement plans need to account for a potential increase in taxes in the future.

## Inflation

Remember when…? As you think back just 20 years to what everyday essentials cost versus what they cost today, it can be downright scary. Here are just a few things to consider:

| Item | 1995 Cost | 2015 Cost | %Increase |
|---|---|---|---|
| First-Class Stamp | $.32 | $.49 | 153% |
| Gallon of Gas | $1.15 | $2.50 | 217% |
| Dozen Eggs | $1.16 | $1.98 | 171% |
| Gallon of Milk | $2.96 | $3.79 | 128% |
| New Car Average | $15,500 | $31,252 | 202% |

Over the past twenty years, inflation has averaged 2.7% per year. Interesting, though, COLA (Cost of Living Adjustment) increases in Social Security benefits in that same time period have only averaged 2.38%.

The bottom line is that a dollar today will not be worth a dollar next year, let alone in 20 to 30 years. If you want a solid retirement plan, it must account for Cost of Living increases. If not, you will most likely find yourself broke in your golden years.

## Social Security

Many Americans choose to begin drawing Social Security at age 62. Why? Because they can. And, they are worried that SSI funds may not be there for them if they wait. The reality? Social Security isn't going anywhere…but it will have to change significantly in the future in order to meet ongoing obligations.

It's no secret, Social Security is a failing system. Under current conditions, the SSI trust fund will be depleted by 2033, just 18 short years from now. Many believe that benefits won't be there when they retire.

The truth is, however, there are many ways that Social Security can be quickly "fixed". Here are three solid moves that may happen in the future to extend the trust fund and ensure that retirees receive the full benefits that they are owed:

1. Raise the full retirement age (FRA)
    a. Currently FRA is age 66 for those born between 1943 and 1954
    b. FRA increases slightly for those born between 1955 and 1959
    c. For those born in 1960 or later, FRA is age 67
2. Raise the Social Security Earnings Cap
    a. Just 20 short years ago, SSI taxes were paid on the first $61,200 of wages each year
    b. Today the earnings cap is $118,500
    c. Currently there is no Maximum Earnings Cap as it pertains to Medicare taxes
3. Increase the Social Security tax rate

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a. Currently, employees contribute 6.2% up to their yearly Earnings Cap and employers must match that 6.2% up to the employee's yearly Earnings Cap.

At present, based on a retiree's annual income, up to 85% of his or her Social Security benefits can be taxed at their ordinary income tax level. This could potentially increase in the future, making it just one more uncertainty in retirement.

## Health Emergencies

Let's look at some staggering statistics. Did you know that the root cause of 62% of all bankruptcies in the United States is a Medical Emergency? Furthermore, most of these medical debtors are well educated and middle class. 75% of them even had health insurance. According to the U.S. Department of Health and Human Services, more than 70% of all Americans over the age of 65 will need long–term care services at some point in their lives. Let's look at some of the expenses associated with that:

| | |
|---|---|
| Average annual cost of care in a nursing facility: | $78,000 |
| Average annual cost of private room in a nursing facility: | $87,000 |
| Average annual cost of round-the-clock home care: | $178,000 |

The most logical way to reduce or eliminate these risks is through a good long-term care plan. Unfortunately, however, many Boomers find these plans too expensive or they don't qualify medically. Currently, this is what we are seeing from the long-term care insurance industry:

- The industry is witnessing increasing premiums for long-term care insurance up 10% to 45% per year
- Average annual premiums range from $4,000 to $6,000 per person
- Clients enrolled in long-term care insurance can spend years paying thousands, only to drop the coverage in later years as it becomes too expensive

Every Boomer needs to have a solid contingency plan to put into action if a healthcare emergency arises. Failing to plan, is planning to fail.

Understanding and planning for "Uncertainty" risks in retirement can make all the difference in your golden years. However, most Americans fail to plan for these unknowns, thus subjecting their retirement to potential shortfalls.

But as uncertain as these risks are, there is another retirement danger far greater than those outlined above. You won't hear about it from the media…and probably not even from your "financial advisor" who gets paid whether you win or lose. That is the Sequence of Return Risk.

The market goes up and down every day. It's unpredictable. Neither you nor I have any control over it.

We do know, however, that there are a lot of things that impact the market. Natural disasters, the price of oil, wars in the middle east…even what's going on today in the headline news has an impact on the market. Believe it or not, breaking news about celebrities being arrested can cause the markets to fall.

Did you know that the market dropped when the Tiger Woods affair was made public? Do you really feel good about basing your retirement savings on whether a celebrity has an affair, or things such as election outcomes, outbreaks of violence, or terrorism? How about when Steve Jobs died? These things can all lead to market upheaval.

As I said above, the market goes up, and it goes down…completely out of our control. This volatility can negatively impact our retirement nest egg during the accumulation years, but it can completely destroy our retirement nest egg during the distribution years. Once we have begun withdrawing income in retirement, down market years can have a multiplying negative affect on our savings, essentially diminishing any remaining assets. Over time, this depletion of savings will cause your retirement accounts to run dry. I'd like to show you a very real example of what I'm talking about.

Let's look at a simple example of two individuals, Jim and Cheryl. Both Jim and Cheryl retired at age 65, and had the same starting account values of $600,000. They entered into retirement with high hopes and big dreams…planning to live on 5% of their savings each year. Of course they would increase this amount annually by 2.7% to keep up with inflation. Let's look at the results on the next page…

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# SEQUENCE OF RETURNS RISK EXAMPLE

| JIM | | | |
|---|---|---|---|
| Age | Market Gain/Loss | Annual Withdrawal | Nest-Egg at Start of Year |
| 64 | | | $600,000 |
| 65 | -9.22% | $30,000 | $600,000 |
| 66 | -12.88% | $30,810 | $517,446 |
| 67 | -23.62% | $31,642 | $423,957 |
| 68 | 13.65% | $32,496 | $299,651 |
| 69 | 1.26% | $33,374 | $303,621 |
| 70 | 11.56% | $34,275 | $273,652 |
| 71 | 28.33% | $35,200 | $267,050 |
| 72 | -7.35% | $36,151 | $297,533 |
| 73 | 24.33% | $37,127 | $242,171 |
| 74 | 4.13% | $38,129 | $254,931 |
| 75 | 7.54% | $39,158 | $225,756 |
| 76 | -2.20% | $40,216 | $200,667 |
| 77 | 31.11% | $41,302 | $156,921 |
| 78 | 19.64% | $42,417 | $151,589 |
| 79 | 32.66% | $43,562 | $130,614 |
| 80 | 27.54% | $44,738 | $115,483 |
| 81 | 19.44% | $45,946 | $90,228 |
| 82 | 25.63% | $47,187 | $52,891 |
| 83 | -36.55% | $4,777 | $7,166 |
| 84 | 2.00% | $0 | $0 |
| 85 | 11.43% | | |
| 86 | 4.10% | | |
| 67 | 25.40% | | |
| 88 | 23.99% | | |
| 89 | 11.00% | | |
| | | | |
| Average Return | | Total Withdrawal | |
| **9.32%** | | **$688,505** | |

| CHERYL | | | |
|---|---|---|---|
| Age | Market Gain/Loss | Annual Withdrawal | Nest-Egg at Start of Year |
| 64 | | | $600,000 |
| 65 | 11.00% | $30,000 | $600,000 |
| 66 | 23.99% | $30,810 | $632,700 |
| 67 | 25.40% | $31,642 | $746,283 |
| 68 | 4.10% | $32,496 | $896,160 |
| 69 | 11.43% | $33,374 | $899,075 |
| 70 | 2.00% | $34,275 | $964,651 |
| 71 | -36.55% | $35,200 | $948,983 |
| 72 | 25.63% | $36,151 | $579,795 |
| 73 | 19.44% | $37,127 | $682,981 |
| 74 | 27.54% | $38,129 | $771,409 |
| 75 | 32.66% | $39,158 | $935,225 |
| 76 | 19.64% | $40,216 | $1,188,722 |
| 77 | 31.11% | $41,302 | $1,374,073 |
| 78 | -2.20% | $42,417 | $1,747,396 |
| 79 | 7.54% | $43,562 | $1,667,470 |
| 80 | 4.13% | $44,738 | $1,746,351 |
| 81 | 24.33% | $45,946 | $1,771,889 |
| 82 | -7.35% | $47,187 | $2,145,865 |
| 83 | 28.33% | $48,461 | $1,944,426 |
| 84 | 11.56% | $49,769 | $2,433,092 |
| 85 | 1.26% | $51,113 | $2,658,835 |
| 86 | 13.65% | $52,493 | $2,640,579 |
| 87 | -23.62% | $53,910 | $2,941,360 |
| 88 | -12.88% | $55,366 | $2,205,434 |
| 89 | -9.22% | $56,861 | $1,873,140 |
| | | | |
| Average Return | | Total Withdrawal | |
| **9.32%** | | **$1,051,700** | |

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# IF YOU DIDN'T HAVE TO RISK YOUR HARD EARNED SAVINGS IN ORDER TO GET COMPETITIVE RETURNS, WHY WOULD YOU?

As we look at this scenario, it's interesting to note that both Jim and Cheryl averaged a 9.32% return over this 25 year period. The difference, however, is that Jim experienced negative years early in retirement – notated by the red cells, and Susan experienced negative years late in retirement. Look at the staggering difference in the two outcomes.

Remember…both started with same amount of money…and averaged the same exact return. The difference was this…the Sequence of Returns. Unfortunately, Jim ran out of money at age 84…only taking out $687,000. Susan, on the other hand drew over $1,000,000 by age 89 and still had $1.8M left. What a difference!

Retirement is full of uncertainties. Most of them are out of our control. Sequence of Return Risk, however, is different. It is 100% avoidable, but many Americans will still feel its devastating effect. The reason? They continue to risk their hard earned savings on the Wall Street Rollercoaster. Unfortunately for them, NO ONE knows when the market will crash…and if it happens at the beginning of your golden years, this could devastate your retirement.

Wealth Planners of America can show you how to plan for the "Uncertainty" risks in retirement and avoid Sequence of Return Risk altogether, while still earning a competitive rate of return.

**Call Fortress Financial today at**

**1-806-416-5650**

**and schedule a complimentary review of your retirement situation, or go to MLCfinancialservices.com for more information.**

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