Redefining retirement, one step at a time

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Perception Of “Retirement” Is Changing

- Healthier, more active
- New careers
- Travel
- Volunteering
- Education
- Hobbies
- More family time
- Awesome goals
Perception Of “Retirement” Is Changing

The Non-financial Aspects of Retirement

So let’s bust through some myths about retirement!
MYTH 1

Financial Planning = Retirement Planning

REALITY

A financial plan is not a retirement plan.

A good financial plan supports a fulfilling personal plan.
MYTH 2

- You are ready to retire when your nest egg is big enough

REALITY

- More money means more choices, not necessarily the best choices
- Having a purpose enables you to make better choices about how to spend your retirement
MYTH 3

- Retirement is an easy transition and leaving work behind is wonderful and stress free.

REALITY

- Retirement can be one of life’s most difficult transitions.
- Retiring happy means financially **AND** emotionally.
Keys to Retirement Success

- Physical activity
- Mental challenge
- Social connection
- Something you are passionate about
- A retirement plan that fits your situation and personality

And yes…
- A financial plan that supports your plan
Financial Questions and Challenges

1. Timing and withdrawals
2. Longevity
3. Taxes and inflation
4. Market volatility
5. Health care costs
Financial Questions and Challenges

Timing and Withdrawals

How do I decide the best way to take income and have enough to last a lifetime?
If you get the same average return over a set period of time, does the timing (order and fluctuation of returns) matter?

- Yes
- No
- It depends
Important Notes About The Following Slides

- These are hypothetical portfolios that consist of a 50% allocation to the S&P 500 Total Return Index and a 50% allocation to the Lehman Brothers Government Intermediate Bond Index. Investors cannot directly invest in an index.

- The S&P 500 Index is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value, and its performance is thought to be representative of the stock market as a whole.

- The Lehman Brothers Government Intermediate Bond Index is composed of all publicly issued, nonconvertible, domestic debt of the US government or any agency thereof, quasi-federal corporations, or corporate debt guaranteed by the US government. All bonds in this index have maturities between 1 and 9.99 years.

- The CPI is an inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation.
Assume $500,000 invested in a 50% stock / 50% bond portfolio
Rebalanced each year
withdrawals – accumulation only

Hypothetical value of $500,000 invested at year-end 1972.
Portfolio: 50% large company stocks, 50% intermediate-term bonds. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results.

Actual Returns 1973-2012

Source: Thompson Financial Investment View

See “Important Notes About The Following Slides.”
Assume $500,000 invested in a 50% stock / 50% bond portfolio
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Source: Thompson Financial Investment View
See “Important Notes About The Following Slides.”
Assume $500,000 invested in a 50% stock / 50% bond portfolio
Rebalanced each year
4.5% initial withdrawal - increased by inflation

Hypothetical value of $500,000 invested at year-end 1972.
Portfolio: 50% large company stocks, 50% intermediate-term bonds. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results.

Source: Thompson Financial Investment View
Inflation based on actual year data.
Assume $500,000 invested in a 50% stock / 50% bond portfolio
Rebalanced each year
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Hypothetical value of $500,000 invested at year-end 1972.
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Source: Thompson Financial Investment View
Inflation based on actual year data.
If you get the same average return over a set period of time, does the timing (order and fluctuation of returns) matter?

- Yes
- No
- [✓] It depends

*It can make a significant difference if you are taking distributions!*
A Tale of Two Retirement Dates
In 1972, if you began taking 5%* from a $500,000 balanced (stock/bond mix) portfolio, how long would your income last?

- 22 Years
- 33 Years
- Forever

*$25,000 adjusted annually for the historical rate of inflation for the defined period.
Hypothetical value of $500,000 invested at year-end 1972. Portfolio: 50% large company stocks, 50% intermediate-term bonds. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results.
Sources Of Income, Timing and Withdrawals

In 1972, if you began taking 5%* from a $500,000 balanced (stock/bond mix) portfolio, how long would your income last?

- ☑ 22 Years
- ○ 33 Years
- ○ Forever

*$25,000 adjusted annually for the historical rate of inflation for the defined period.

4% – adjusted for inflation – would have over $800,000 remaining in 2006, based on the assumptions in the previous chart.
Financial Questions and Challenges

Longevity
How long will I need income?
Assuming a couple are both age 65, what is the chance that at least one spouse will live to age 90?

- 15%
- 30%
- 45%
Percentage chances of at least one spouse of an age 65 year old couple living to age 90

Assuming a couple are both age 65, what is the chance that at least one spouse will live to age 90?

- 15%
- 30%
- 45%

Your retirement income may need to last for a long time – at least we hope so!
Financial Questions and Challenges

Taxes & Inflation

How will I maintain my standard of living?
Taxes & Inflation – Can I Maintain My Standard Of Living?

What was the average price of a single family home in 1976?

- $48,000
- $63,700
- $82,400
## Price Comparison 1976 vs Today

<table>
<thead>
<tr>
<th>Item</th>
<th>1976</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of first-class stamp(^1)</td>
<td>$0.13</td>
<td>$0.46</td>
</tr>
<tr>
<td>Gas 1 U.S. Gallon(^2)</td>
<td>$0.61</td>
<td>$3.52</td>
</tr>
<tr>
<td>Price of single-family home(^3)</td>
<td>$48,000</td>
<td>$285,391</td>
</tr>
</tbody>
</table>

Source:
1. U.S. Postal Service.
2. AAA’s Fuel Gauge Report, September 2013.
3. U.S. Census Bureau. Today’s price based on 2012 data, the most recent available.
Taxes & Inflation – Can I Maintain My Standard Of Living?

What was the average price of a single family home in 1976?

- $48,000
- $63,700
- $82,400

Your last car may have cost that much!!
If prices rise by an average of 3% for the next 24 years, how much will gas cost per gallon? (Assume a current price of $3.52.)

- $6.40
- $7.04
- $8.12
The Rule Of 72

The rule of 72 is a way to show the approximate impact inflation can have on your purchasing power. To calculate how long a rate of inflation would take to double costs, divide 72 by the expected rate of inflation.
**The Rule Of 72**

6% inflation: 72 divided by 6 = 12 years*

4% inflation: 72 divided by 4 = 18 years*

3% inflation: 72 divided by 3 = 24 years*

*These years are approximations.*
If prices rise by an average of 3% for the next 24 years, how much will gas cost per gallon? (Assume a current price of $3.52.)

- $6.40
- $7.04  ✔
- $8.12

The rule of 72 in action!
After taxes and inflation*, how much is $100,000 invested at 5% worth at the end of a year?

- $ 99,758
- $101,606
- $103,290

*Hypothetical combined 35% effective tax rate and 3.5% inflation. Assumes interest credited end of year. For illustrative purposes only.
### How Taxes & Inflation Could Turn a “Gain” Into a Loss

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Investment</td>
<td>$100,000</td>
</tr>
<tr>
<td>Interest after one year (5%)</td>
<td>5,000</td>
</tr>
<tr>
<td>Less 35% effective combined tax rate</td>
<td>1,750</td>
</tr>
<tr>
<td>Net after-tax interest</td>
<td>3,250</td>
</tr>
<tr>
<td>Net after-tax investment</td>
<td>103,250</td>
</tr>
<tr>
<td>Net after 3.5% inflation</td>
<td>99,758</td>
</tr>
<tr>
<td>Total return after inflation and tax</td>
<td>-.24%</td>
</tr>
</tbody>
</table>

Hypothetical example for illustrative purposes only.
Taxes & Inflation – Can I Maintain My Standard Of Living?

After taxes and inflation*, how much is $100,000 invested at 5% worth at the end of a year?

- $99,758
- $101,606
- $103,290

Sometimes a conservative return doesn’t pay!
Financial Questions and Challenges

Market Volatility
How should I allocate assets in retirement?
Market Volatility – Where Should I Have Assets?

Over a ten-year rolling period, how many times since 1925 have stocks (based on the S&P 500 Index) lost money?

- 5
- 10
- 15
One-year rolling period historical returns shows 31% of years with a negative return!

S&P 500 Total Return Index.
Source: Morningstar Direct, 12/31/12
Index past performance is not indicative of future results. Indices are unmanaged and not available for direct investment. Analysis assumes reinvestment of income, and no transaction costs.
Ten-year rolling period historical returns shows 5 periods (6%) with a negative return…

The 10-year periods ending 1937, 1938, 1939, 2008, and 2009

S&P 500 Total Return Index. Source: Morningstar Direct, 12/31/12

Index past performance is not indicative of future results. Indices are unmanaged and not available for direct investment. Analysis assumes reinvestment of income, and no transaction costs.
Over a ten-year rolling period, how many times since 1925 have stocks (based on the S&P 500 Index) lost money?

- ✔️ 5
- 10
- 15

Over the last 85 years!
Market Volatility – Where Should I Have Assets?

Does adding stock to a portfolio of long-term bonds increase the volatility of my investments?

- Yes
- No
Combining asset classes that are negatively correlated can help reduce risk and potentially improve return.

Not reflective of individual investments. See following pages for definitions.
Combining asset classes that are negatively correlated can help reduce risk and potentially improve return.

Hypothetical example for illustrative purposes only. See “Asset Class Information” on the following slides.
**Asset Class Information**

- **Cash and Cash Equivalents**
  Seeks maximum current income consistent with the preservation of capital. Invests in money market funds and short-term obligations issued by US corporations; the US Government; federally chartered banks and US branches of foreign banks. An Investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. Guarantees are based on the claims-paying ability of the US Government or individual companies.

- **Investment Grade Bonds**
  Seeks maximum current income consistent with the preservation of capital. Invests primarily in corporate, municipal and US Government securities of all maturities.

- **High Yield/International Bonds**
  Invests in rated and unrated corporate bonds (including high-yield bonds commonly known as junk bonds), foreign government securities and commercial paper. This asset class may involve greater risks than an investment in investment grade bonds. The risk associated with investing on a worldwide basis include difference in regulation of financial data and reporting, currency exchange differences, as well as economic and political systems that may be different from those in the United States.

- **Large Cap Equities**
  Seeks long term growth of capital principally through investment in common stocks and convertible securities of seasoned and better capitalized (greater than $5 billion) companies.
International/Global Equities
Seeks long term growth of capital primarily through investment in foreign securities, including common stocks, preferred stocks, convertible securities and warrants. The risk associated with investing on a worldwide basis include difference in regulation of financial data and reporting, currency exchange differences, as well as economic and political systems that may be different from those in the United States.

Small/Mid Cap Equities
Seeks capital appreciation by purchasing stocks of companies whose total outstanding stock market value is less than approximately $5 billion. Small cap stocks may be subject to a higher degree of risk than more established companies’ securities. The illiquidity of the small cap market may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost.

Emerging Market Equities
Seeks long term capital appreciation through investment in securities including common stocks, preferred stocks, convertible securities and warrants, from countries considered to have emerging markets. The risk associated with investing on a worldwide basis include difference in regulation of financial data and reporting, currency exchange differences, as well as economic and political systems that may be different from those in the United States.
Does adding stock to a portfolio of long-term bonds increase the volatility of my investments?

- [x] No
- [ ] Yes

Because stocks and bonds are typically negatively correlated, combining them in a portfolio can help reduce risk and potentially improve return, but there is no guarantee against a loss.
Financial Questions and Challenges

Health Care Costs
How much will I need to budget for health care increases?
Health Care Costs

A couple retiring at age 65 will need to plan for out-of-pocket health care costs* totaling?

- $140,000
- $240,000
- $340,000

*To life expectancy
A couple retiring at age 65 will need to plan for out-of-pocket health care costs* totaling?

- $140,000
- $240,000
- $340,000

### Long-Term Care Facts

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>70%</td>
<td>Percent of people turning age 65 who can expect to use some form of long-term care at some point in their lives&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>10%</td>
<td>Percent who stay 5 years or more&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>$95,630</td>
<td>Average annual rate for a single occupancy, private room in a Medicare-certified Nursing Home is $95,630&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td>$83,585</td>
<td>Average annual rate for a semi-private room in a Medicare-certified Nursing Home is $83,585&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td>865 days</td>
<td>Average length of stay in nursing home&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td>97%</td>
<td>Percent of people over age 85 requiring assistance in their last year of life&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>50%</td>
<td>Percent of people entering a care situation who are penniless within 1 year&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

**Sources:**
5 Challenges

What’s the solution?
### The Historical Strategy

**Focused primarily on asset allocation**

<table>
<thead>
<tr>
<th></th>
<th>Timing</th>
<th>Longevity</th>
<th>Inflation</th>
<th>Market Volatility</th>
<th>Health Care</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>✔️</td>
<td></td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td>✔️</td>
<td></td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Stocks</strong></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Pension</strong></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Annuity</strong></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
## Retirement Income Security Specialists

Financial Strategies Focused On *Your* Unique Goals!

<table>
<thead>
<tr>
<th></th>
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<th>Market Volatility</th>
<th>Health Care</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic</strong></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Short Term</strong></td>
<td>✔️</td>
<td></td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Long Term</strong></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Combined</strong></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
Together, we can help design a retirement income security plan that manages the five challenges by:

▶ Helping you define your future

▶ Clarifying expenses and resources

▶ Taking the steps to designate assets and streams of income* to help guide you toward those goals

Your plan tailored for your vision of “retirement”

* Please see slides 71 and 72 for important information.
Next Steps?

Steps To Help Guide You Toward Retirement Income Security
Steps To Help Guide You Toward Retirement Income Security

**Basic Needs**
To the extent possible help ensure that Basic Needs are covered for life by Stable Income Sources and Dedicated Other Resources

Housing, Food, Transportation, Clothing, Insurance, Taxes
Lifestyle Wants
To the extent possible dedicate Other Resources necessary to provide reasonable security for Anticipated discretionary expenses

Legacy
Goals
Wants
Needs
Travel, Hobbies, Entertainment, Gifts
Housing, Food, Transportation, Clothing, Insurance, Taxes
Steps To Help Guide You Toward Retirement Income Security

Accumulation Goals
Prioritize accumulation goals and use appropriate portfolios and investment vehicles based on time horizon

Legacy

Goals
2nd Home, College For Grandchildren, Boat, RV

Wants
Travel, Hobbies, Entertainment, Gifts

Needs
Housing, Food, Transportation, Clothing, Insurance, Taxes
Legacy Planning
Allocate remaining assets, use appropriate insurance strategies, coordinate estate planning documents

Legacy
Spouse, Children, Family, Charity

Goals
2nd Home, College For Grandchildren, Boat, RV

Wants
Travel, Hobbies, Entertainment, Gifts

Needs
Housing, Food, Transportation, Clothing, Insurance, Taxes
What’s Important To You?

- Clarify your goals; paint your future
- Plan more for the non-financial aspects of your retirement
Steps To Help Guide You Toward Retirement Income Security
Annuity Disclosures

Annuities
Tax-deferred annuities are primarily intended to be long-term investments. Because of this, and because of the complexity of many annuity contracts, an individual considering the purchase of a tax-deferred annuity should carefully consider all aspects before entering into the contract. The advice and counsel of appropriate tax, legal, and other advisors is highly recommended.

Two primary annuity types are fixed and variable annuities. Although these annuities share many features in common, the key differences between them arise from the means used to potentially grow the funds contributed by the contract owner.

Fixed Annuities: Fixed annuities are characterized by a minimum interest rate guaranteed by the issuing insurance company. Typically, a minimum annuity benefit is also guaranteed. The funds contributed to the contract by the annuity owner are placed in the insurance company’s general account, and the investment risk involved rests entirely on the insurance company. With a fixed annuity, the focus is on safety of principal and stable investment returns. All guarantees within the contract are based upon the claims-paying ability of the issuing insurer.

Variable Annuities: In contrast, a variable annuity contract generally has no guarantees as to investment return or annuity benefits. The funds contributed by the contract owner are placed in one or multiple sub-accounts. Within these sub-accounts, the annuity owner may choose to invest the funds in a wide variety of investment options. Annuity benefits depend upon the investment results achieved. The investment risk rests entirely on the contract owner. With a variable annuity, the goal is to provide benefits that keep pace with inflation.

A variable annuity is a long-term investment product designed particularly for retirement purposes. Variable annuities contain both investment and insurance components, and have fees and charges, including mortality and expense, administrative, investment management fees and surrender charges. Surrender charges range according to product chosen and typically decline over time.
Annuity Disclosures

The annuity's value is subject to market volatility and all assets accumulate tax-deferred. Withdrawals of earnings are taxable as ordinary income and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Withdrawals will reduce the death benefit and cash surrender value. The investment return and principal value will fluctuate so that the value of redeemed shares may be worth more or less than their original cost.

There is no additional tax deferral benefit for contracts purchased in an IRA or other tax-qualified plan, since these are already afforded tax-deferred status. Therefore, an annuity should only be purchased in an IRA or qualified plan if the client values some of the other features of the annuity and is willing to incur any additional costs associated with the annuity to receive such benefits.

Significant differences exist in risk among investment asset classes. Be aware that some investments have principal and yield that will fluctuate, some with extreme volatility. Consider personal investment horizons and income tax brackets, both current and anticipated, when making an investment decision as these may further impact results. Other investment vehicles may offer lower maximum income tax rates on capital gains and dividends which may led to more favorable returns on taxable investments.

Optional features such as guaranteed principal, income, withdrawal and/or death benefits are available for an additional charge and are based on the financial strength of the insurer. Costs and features vary depending on the optional feature chosen. The additional charges and expenses for optional features should be considered carefully before purchasing. The expense of annuity benefits should be considered carefully against financial needs and goals.

Clients should consider the investment objectives, risks, charges, and expenses of the variable annuity and its underlying investment options carefully before investing. The prospectus contains this and other information about the variable product and its underlying investment options. The prospectuses should be read carefully before investing. Request a prospectus from your registered representative.