



Schwartz Financial Services

Comprehensive Wealth Management & Retirement Planning

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Most Americans get excited about the day when there are no more bosses to report to, no ridiculously wasteful meetings to attend, and no need to spend lunch hours complaining about coworkers who get on their nerves. We realize that retirement is the beginning of another lifestyle. Some people spend



many years saving and investing for retirement, but they forget there could be decades of life after handing in their resignation letter.

Planning for how you'll spend your time and money in advance can help you remember that retirement is not the end goal, but the beginning of a new phase of life. The good news is that those who sufficiently plan have a favorable chance of having a fulfilling and happy retirement.

Many Americans face major decisions as they age and consider retirement. One of the most challenging ones is retirement income planning, or making a plan to coordinate all of your decisions to ensure you have enough income to pay the bills and be prepared for uncertainty. Financial planners and retirees have always attempted to calculate how much income a retired couple or individual can "comfortably" count on to pay their bills and maintain a calculable retirement income projection. For many investors, the Four Percent Rule has helped both financial planners and retirees guesstimate an investor's portfolio withdrawal rate. Your life expectancy typically plays an important role in determining if your chosen withdrawal rate is going to be sustainable. Retirees who live longer will need

their portfolios to last a longer period of time and should expect medical costs and other expenses to typically increase.

So what is the "Four Percent Rule?"

Definition of "Four Percent Rule"

According to Investopedia.com, the Four Percent Rule is "the rule of thumb used to determine the amount of funds to withdraw from a retirement account each year. The Four Percent Rule seeks to provide a steady stream of funds to the retiree while also keeping an account balance that will allow funds to be withdrawn for a number of years. The 4% rate is considered to be a "safe" rate, with the withdrawals consisting primarily of interest and dividends. The withdraw rate is kept constant, though it can be increased to keep pace with inflation."

The Four Percent Rule is merely a guideline that financial professionals and retirees have used as a rule of thumb to help make retirement withdrawal calculations.

The big question today is, in a low interest rate environment, is this rule still relevant?



Prior to answering that, it's important to remember that even, at best, the Four Percent Rule is only a rule of thumb; it's not a law! Each and every retiree's plan could be slightly or greatly different. When interest rates were higher, this Four Percent Rule might have been a good starting point because it tried to keep withdrawal rates reasonable. It also took into

account that inflation will make things increase in cost as the years progress. Having a starting point can be healthy, but it is not a replacement for creating a specific plan for your success!

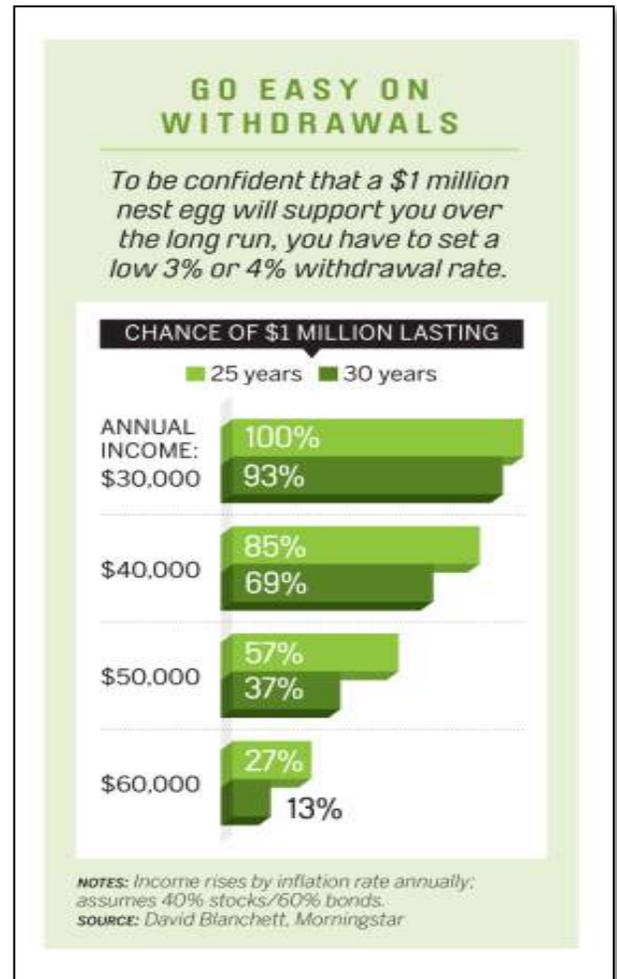
Considerations for Retirement Income Planning

You may not want to convert all of your savings to fixed income or CDs. Even when you are at a retirement age and are starting to take withdrawals from your investments, it is still important to consider keeping a diversified portfolio. One of the reasons the Four Percent Rule actually helped, was the assumption that if your portfolio could grow by an average of 6 or 7% or more – then by withdrawing only 4% you still saw modest growth. Understanding that interest rates are currently low on fixed income investments and that your rates of return will fluctuate make it essential to revisit your portfolio allocations periodically.

Resist the desire to overspend during good years.

Market cycles could produce healthier returns during a good year, however, it is important that you do not view these better years as an opportunity to splurge. It is very easy to think, “I don’t want to limit myself to a 4% withdrawal, I can afford 10%,” during a good year. Investors who maintain discipline and self-control are more likely to achieve a better long-term result.

Stay the course during bad years. Many investors benefit from setting up a “reservoir” for funding their withdrawals and bill payments during retirement. Market cycles are susceptible to bad times and those might be inopportune times to panic over income. Your personal plan needs to have a strategy in place for downturns. This is why we discuss risk tolerance as well as immediate needs with our clients. Investments are not meant to be handled on an emotional basis and therefore some advanced planning is required.



Cut back whenever possible. Even if you plan for a “comfortable” retirement with a 3% or 4% withdrawal rate, whenever possible consider staying below that rate. Even though you are retired and should be enjoying your life, maintaining financial prudence is still a wise decision. Savers find that it can be useful to be ahead when it comes to planning during your retirement years.

Remember to consider taxes. When calculating your retirement withdrawals you should always consider using the least taxing methods available to you. Coordinating the tax ramifications of where to take your distributions from can prove to be invaluable. Remember that when you withdraw money from your retirement plans you should first consider the tax impact. For example, money withdrawn from many traditional IRAs and company 401k plans can be subject to taxes.

Make the most of income dips. Of course, a tax strategy may call for an accountant or financial advisor, but perhaps in the year after you retire, with no paycheck coming in, you drop to the 15% bracket or you have medical expenses or charitable deductions that reduce your taxable income briefly before you bump back up to a higher bracket. Tapping pretax accounts in low-tax years may enable you to pay less in taxes on future withdrawals. These are strategies we can discuss with you at review meetings.

Social Security decisions and income. Social Security income is something all retirees need to consider when crafting their retirement income plans. This is an area that can be complex. However, we can help you create your personal strategy. The Social Security program allows you to begin receiving benefits the month after you reach age 62, or to wait until your full retirement age, or even later. The longer you wait, the fewer checks you'll receive. But the checks will be bigger if you wait (up to age 70), so a delay will produce a greater total benefit if you live long enough. The decision about when to start taking your benefits is partly a gamble on how long you're going to live and partly a matter of economic circumstances and personal preferences. If you have any questions about your situation please feel comfortable calling us.

Remember to consider required minimum distributions (RMDs). Retirees must start making required minimum distributions (RMDs) by age 70½. With a large retirement account, that income could push you into a higher tax bracket. This is another area of consideration that you should address in your plan.

Roth IRA Conversions. Some investors benefit from converting to Roth IRAs during retirement. This conversion can be done on a partial or full basis, but it is complicated and needs to be well planned. It will create immediate tax considerations and has its own set of complex rules. Prior to making any Roth

IRA conversion decisions, it is important to talk to a qualified tax professional to determine the tax consequences. A poorly designed conversion plan can be very costly.

What is your true goal?

When crafting your retirement income plan it is critical that you focus on your true goal. Most of the time, your decisions are



based on lifestyle habits and financial discipline. It has become very expensive to live and be entertained. Clothing and dining choices can add up quickly. Retirement is the period of life that follows many years of working. Although this is a time that you want to spend relaxing and enjoying life, you still should have a plan in place for your retirement income needs.

In conclusion, the primary purpose of retirement income planning is to maximize your use of savings and retirement accounts. Having the right professional helping you along the way can greatly streamline this process and alleviate any pitfalls or challenges that may arise. Trying to create and manage your retirement income by yourself can be challenging. You should always seek out the advice of a qualified tax and financial professional who can work with you to make sure that your plan is properly implemented on your specific terms.

If you have any friends, relatives or colleagues who are about to or have recently retired, we can help! Please call our office and we'd be happy to send this information or meet with them to discuss their financial needs.



Schwartz Financial 2017 Client Advocate Program

This year, our goal is to offer our services to several other clients like yourself. We would be honored if you would:

- Suggest a friend to receive our mailings
- Bring a guest to one of our workshops
- Share this newsletter with a friend or colleague
- Share the news of our complimentary consultations

Those clients who do any of the above will be entered into our Client Advocate Program which includes our sincere gratitude and a special event this fall.

If you are currently not a client of Schwartz Financial, we would like to offer you a complimentary, one-hour, consultation with one of our professionals. Please call, 215-886-2122.

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You should discuss any tax or legal matters with the appropriate professional.

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