Registered Investment Advisor Firm

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Q & A

Q: To support my lifestyle in retirement, do I need 100% of my preretirement income?
A: It is recommended you need 75%-85% of your preretirement income to live on. Many expenses are reduced or eliminated such as payroll taxes, food costs, retirement savings and commuting costs. But it is important to plan a budget and review and adjust annually.

Q: In relation to my final salary, should my nest egg be twice as big?
A: It is recommended you need 8 to 10 times your annual salary. Together with Social Security benefits, you should be able to replace 85% of your preretirement income. If you have other sources of income - such as a traditional pension or a part-time job – or if you plan to significantly reduce your spending in retirement, you can get by with saving less.

Q: Should I continue to own stocks after I retire?
A: Given that life spans are longer today, you will need to invest for some growth well into retirement. Starting with a mix of 55% stocks and 45% income producing, you should gradually adjust to more income assets to become more conservative as you age.

Q: If I withdraw 4% annually from my retire accounts, will I run out of money?
A: According to the “4% Rule”, you can safely take 4% of your total portfolio in the first year of retirement and the same amount, adjusted for inflation, every year afterward. But the rule does not reflect current or future corrections. Entering retirement in a bear market and taking 4% from your nest egg could cripple your portfolio. Rather than follow the rule blindly, consider lowering the percentage or skipping the inflation adjustments in years when the market performs poorly and increase the percentage when times are good. You should definitely continue to review and monitor your assets, distributions and budgets at least every other year.

Q: If I’m short on savings, can I plan on working longer?
A: You can plan, but may not be able to stay on the job. Health problems are the biggest reason people find themselves

retiring ahead of schedule, followed by involuntary job loss, according to the Center for Retirement Research at Boston College. Older workers generally have more trouble finding work after a layoff. Family circumstances can also play a role, such as a spouse retiring before you do or parents or kids moving back into your home.

Q: Do I need to plan to spend more than $200,000 out–of-pocket to cover health costs in retirement?
A: Medicare doesn't cover everything. Recent estimates for total health costs range from $245,000 to $264,000 for a couple who are 65 and live to their average life expectancy – 82 for men and 85 for women. These costs are why you need at least eight times your final salary as a nest egg.

Q: Once I file for Social Security, can I change my mind?
A: Within 12 months of first claiming your benefits, you can withdraw your application by filing Form SSA-521. You will need to repay all of the money you received, including any spousal benefits. You can then restart benefits in later years, for a larger amount.

Q: Do most people claim Social Security benefits before reaching full retirement age?
A: About 44% of workers take the benefits as soon as they are eligible, age 62, and nearly 75% of retirees take benefits before reaching full retirement age (FRA). Should you claim benefits early, at your FRA (currently 66, for workers born between 1943 and 1954) or delay until age 70? That is a big personal decision based on a lot of factors about your health, needs and sources of income.

If you take benefits early, you'll see about 25% to 30% less each month than if you waited till FRA. If you wait, you will receive 8% more in benefits for every year beyond FRA. If you receive your benefits early or at FRA, and you do not live to your projected life expectancy, you will collect a lower total payout. If you delay claiming until 70 and live well beyond your life expectancy, the wait will be more than worthwhile.

Q: Is Social Security going broke?
A: Social Security may eventually fall short of money it needs to deliver full benefits, but it's not likely to go broke. Social Security is mostly funded by payroll taxes and taxes on benefits. In recent years, those revenues have not been enough to cover full benefits, so the system has used interest on its reserves to cover the gap. The reserves are currently projected to run out in 2034, at which point tax revenue will generate enough to cover only 77 cents for every dollar of scheduled benefits. I think Congress will step in and find a way to fix the system before that happens.

Please keep the questions coming.

FED Watch

The FED raised rates at its December meeting and currently meeting as this newsletter goes to print. The Fed is projecting to raise three more times in 2017, we will wait and see.

Market observers give a 4% chance of a quarter point rise in the Fed Funds at the next meeting and a 5% chance of a raise at its March meeting.

The next meetings are January 31st and February 1st and March 14th and 15th.

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:
bob@davisinvestmentgroup.biz