Registered Investment Advisor Firm

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Retire Worry-Free

As you approach retirement, it's easy to become fixated on the magic number – a pot of money large enough to allow you to retire comfortably without outliving your savings. But figuring out whether you can afford to retire requires math along with thoughtful analysis of how you plan to spend your time and money.

A popular rule of thumb suggests planning on replacing 70% of your current income, or 80% if you want a higher level of living.

To come up with your own magic number, you need to figure out how much you'll actually spend in retirement – a comprehensive retirement budget.

You'll also need to estimate how long your money will last. A safe withdrawal rate is the 4% rule. You withdraw 4% from your savings in the first year, and adjust the amount annually by the previous year's inflation rate.

This strategy won't help if a 4% withdrawal rate won't cover your living expenses. Several studies have shown that many retirees are so worried about running out of money that they're unwilling to spend their savings, even if it's a substantial one.

Below are 10 steps to achieve your goal:

Figure how much you're spending now.
Do you really know how much of your paycheck goes toward your necessities and non-necessities? Review your credit card and bank statements and track all of your expenses for the past 3 to 6 months. Don't forget expenses that occur quarterly or biannually, such as property taxes. Pay stubs can help with insurance premiums, retirement savings and federal, state and local taxes. A software program, spreadsheet or worksheet can make it easier to do.

Back out expenses that will decline or disappear.
Once you retire, you'll no longer contribute to a workplace retirement plan, so that expense will go away along with any health savings account (HSA). Although your HSA and employer

health insurance are eliminated, your health care expenses could go higher.

If you plan to pay off your mortgage, that's a large line item you can remove from your budget, but you will still have insurance, property taxes and maintenance.

Some pre retirees still have adult children that they are still providing financial support. This complicates your estimates of how much you'll spend in retirement, especially if you plan to cut them loose after you stop working.

Figure the cost of your retirement lifestyle.
Give serious thought to how you'll spend your time and money. In the early retirement years and still in good health and eager to do all things they didn't have time to do when they were working, many retirees spend more on travel and entertainment than they thought. Instead of one big vacation, consider 2 or 3 smaller trips per year. Even if you stay close to home and garden or volunteer, your heating and air conditioning bill will probably go up because you'll be home a lot more.

Get a handle on health care expenses.
The average Medicare beneficiary spent more than $5,400 in out-of-pocket costs for health care in 2016, according to the Kaiser Family Foundation. The total includes premiums for Medicare Part B, prescription drugs, supplemental insurance and other costs.

To figure out how much you'll need to budget for the plan you choose, go to Medicare Plan Finder at www.medicare.gov/plan-compare. You can also click on a link that will provide information about the costs of various Medigap policies (a supplemental policy that covers costs traditional Medicare doesn't cover).

Dental care isn't covered by traditional Medicare (although some Medicare Advantage plans cover it) and can be a huge expense. Also, hearing aids aren't covered either. Fidelity Investments estimates that 15% of your retirement income will go toward health care, and if you have a chronic illness or disability, the percentage could be much higher.

If you retire before age 65, costs for health insurance premiums and deductibles can be steep. COBRA plans can help but they are very expensive and are only available up to 18 months after retirement.

Another option is to buy a policy through your state health insurance exchange. These policies are pricey, but you can't be turned down due to pre-existing conditions and many retirees qualify for income-based tax credits.

Don't forget about taxes.
The tax code offers some perks for seniors. If you're 65 or older, you can claim an additional $1,300 for your standard deduction in 2020 ($2,600 if you and your spouse are both 65 and older and file jointly). Don't count on your tax bill falling a lot. All your traditional IRAs and 401(k) plans will be taxed at your ordinary income tax rate when you take it out. Depending on

your other income, a portion of your Social Security benefits may be taxed as well. Don't forget about state taxes. California taxes all retirement income, and depending upon your income, at a rate ranging from 1% to 13.3% and has the highest sales taxes in the country.

If you have a combination of taxable and tax-deferred accounts, sitting down with a financial planner or tax professional to discuss the most tax-efficient way to withdraw money from the various accounts. A tax pro can help with a realistic estimate of federal, state and local tax bills.

Adjust for inflation.
The past decade has been low inflation, but that can change. Overall inflation may remain low, but health care expenses have historically risen faster than the rate of inflation. I have always used 3% as an inflation rate to help with planning. This leaves some room if the actual is lower.

Don't forget an emergency fund.
Numerous studies have shown that Americans fall short when it comes to putting aside money for emergency. A well-funded rainy-day account is even more important once you retire, you can't work overtime or ask for a raise. Starting at least 5 years before retiring, you should set aside $200-$300 per month in a separate account until you have at least 9 to 12 months of expenses.

Expect changes in expenses as you age.
During the go-go years, age 65 to 75, many retirees spend as much as they did before they retired. Once they reach their mid-70's, the slo-go years, age 76 to 85, you are less active and spend less as well as downsizing to a condo or smaller home. You also spend less on food as you grow older, according to the Employee Benefit Research Institute (EBRI). EBRI found that average annual spending on food for go-go retirees was $4,400 to $4,900. Once they reached 75, it fell to $3,700 to $4,000.

During the no-go years, 85 and older, your expenses rise, primarily due to health care costs.

Create a back-up plan.
Paying off your mortgage before you retire will provide a layer of security. You won't have to worry about selling some of your portfolio during a downturn to make your monthly payment.

Social Security will provide a monthly check for the rest of your life, adjusted every year for inflation. You can claim benefits as early as 62, but that will reduce your payout permanently by up to 30% compared with waiting until full retirement age (66 and 8 months for those turning 62 this year). For every year past your full retirement age that you delay claiming, your benefit grows by 8% until age 70. You can get an estimate of your benefits at www.ssa.gov/benefits/retirement/estimator.html. But whether you claim benefits now or later, you don't want them to be your only source of income.

Once you've retired, review your expenses once a year.
By reviewing annually, you can determine whether you're spending more or less than you expected and adjust withdrawals from your savings accordingly. You can also adjust your projections to account for changes in your circumstances (mortgage pay-off or child moving out). If you spent less than you estimated – celebrate.

If you need help with planning your retirement or any other financial questions, contact me at (707) 648-2024.

FED Watch

The FED left its benchmark rates alone at the January meeting as expected and was unanimous again. The range is still at 1.5% to 1.75% and signaled that it still expects to keep the rates unchanged through 2020 to maintain stability. Inflation pressure is still low and below its 2% target. There we several comments:
-economic activity is at a moderate rate
-continue to watch global developments
-household spending rising at moderate rate
-Business investing, exports remain weak
-labor market remains strong
-job gains solid in recent month
-monetary policy is appropriate

There is a 15% chance of an increase and 0% chance of lowering at the March meeting.

Next meeting:
March 17th and 18th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. Bob's 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, please contact me by phone or through my email address at:
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