

# Investing for Retirement

## “Living to 95....and Not Running Out of Money”

*Guiding women of all cultures  
toward a strong financial future*

# EMPOWER

Embracing and Promoting Options for Women to Enhance Retirement

Bob Schulz, “The Retirement Guy”  
Department of Employee Trust Funds

November 5, 2015



EMPOWER

# Why Focus on Women?

“The largest growing segment of our population is poor, elderly women.”

--Teresa Heinz Kerry



**EMPOWER**

# Issues Unique to Women



Earn less

Time away from work

Part-time work

Less in savings and pension

Live longer

Living alone in retirement

# State of Wisconsin

## Webinar

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### Investing for Retirement

(Living to 95 and not running out of money)



# Investing for Retirement

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## Quote:

“If I have even just a little sense, I will walk on the main road and my only fear will be straying from it.”

Lao-tzu



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**or maybe you prefer this one:**

“It may be that your sole purpose in life is simply to serve as a warning to others.”

Anonymous



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**However; keep in mind this one point about:**

## Investing

“Investors cannot earn high returns without occasionally bearing great loss. If the investor desires safety, then he or she is doomed to receive low returns.”

William Bernstein

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## Three Rules When Saving for Retirement

- **Rule # 1:** Make sure your Rich Ratio is over 1.

monthly income

monthly expenses

“It doesn’t matter whether you can make a return of 2 percent, 5 percent or 10 percent on your investments, if you have nothing to invest.”



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- **Rule # 2: Avoid Credit Card Debt.**

“Credit cards are the crack cocaine of the financial world. They start out as a no-fee way to get instant gratification, but the next thing you know, you’re freebasing shoes at Nordstrom.”

Scott Adams – Creator of *Dilbert* comic strip.



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- **Rule # 3: Start Saving Early – Time is money.**

“The secret of getting rich slowly, but surely, is the miracle of compound interest.”

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## Rules for Investing Your Money.

**Rule # 1: Buy Index Funds** (Low cost & diversification)

“This simple strategy – indexing – has outperformed all but a handful of the thousands of equity and bond funds that are sold to the public.”

*The Elements of Investing*

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- But why do professionals as a group do **worse** than the market?
- In fact, they do earn the market return – **before expenses.**

“Professional managers underperform the market as a whole by the amount of their management expenses and transaction costs.”

*The Elements of Investing*

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- How does one choose among different types of broad-based index funds?
  - Preference should be given to broader indexes that include more smaller-company stocks, such as the Russell 3000 or the Dow-Wilshire 5000.
  - Total stock market index funds (domestic and international) are the better way for investors to benefit from long-term growth.

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**Rule # 2: Diversify** (Asset Allocation - not having all your eggs in one basket)

- **Securities** – By holding a large number of individual stocks in different industries to moderate your investment risk. (Broad Index funds do this automatically)
- **Asset Classes** – Stocks, bonds, real estate and commodities are examples of different asset classes. Often called “Asset Allocation.”

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- Markets – International and emerging markets are examples of market diversification.
- Time – You can reduce risk by building up your investments slowly with regular, periodic investments over time. Investment advisors call this technique “dollar cost averaging.”

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**Some things to consider about asset allocation:**

**When you'll truly need the money**

- Retirement is a series of financial goals
- Your money goals must meet two criteria
  - Needs to last as long as you do
  - Must provide income and keep up with inflation
- Requires proper allocation between stocks and bonds
  - 40-75% equities depending upon age and risk tolerance



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## The Reality of Risk

- What is your risk tolerance?
  - You already know the answer to that question by knowing what you did when the market fell 50% from October 2007 until March 2009. Did you sell, hold or buy more stocks?
  - If you need a certain amount of money at a specific time, then you need to invest in less-volatile investments, such as cash or short-term bonds.
  - The more you invest in stocks, the more you broaden the range of possible future values of your portfolio, for better and for worse.

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## Other Streams of Retirement Income

- Defined-benefit Pension
- Do you know the value of your pension income stream?
- For a 65 year-old woman, \$2,500 a month would require \$480,000 in an immediate fixed annuity.

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## Home Sweet Loan?

- Should you factor home equity into your asset allocation? Only if you plan to use your home equity as a source of retirement income.
  - Home Equity Loan
  - Reverse Mortgage
  - Downsizing
- If your home is mortgage free, should you invest in real estate investment trusts (REITs)? Probably, because they invest in other forms of real estate and pay dividends.

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## Your Human Capital

- Are you a stock or a bond?
  - If your job is safe and your income steady and reliable, you're more like a bond and can take more risks with your investment assets.
  - If your job and compensation are very sensitive to the economy, you might want to play your investments safer to mitigate the risk that your paycheck and portfolio are down significantly at the same time.

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## Your Human Capital (continued)

- Don't put more than 5% of your portfolio in the stock of the company that also puts food on your table, e.g., the company you work for. You don't want your pay-check and a large portion of your portfolio to disappear if your company becomes the next Circuit City, Enron, Lehman Brothers, or Blockbuster Video.

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## Your Health

- We all want to live long and happy lives. But the truth is, the longer we live, the longer our retirements will be – and the more money we'll need.
- If you think you'll have an **above-average** lifespan, here are two things to consider:
  - You can buy an annuity that pays an annual income that the owner can't outlive (as long as the company is still in business).
  - The research shows that historically the ideal stock allocation for someone planning a 30 year retirement is 50% - 60%. However, for a 40-year retirement, the best allocation was 60% - 65%.

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## Your Financial Advisor (everyone's fallible)

- Invest in a variety (3 or more) index funds.
- If you feel led to invest in 'managed' mutual funds, don't invest more than 10% in a single fund.
- Consider hiring a financial advisor to manage a portion of your portfolio.
  - The equity portion or purchasing 'immediate' or 'deferred' annuities.
  - To help control your worst investment habits, e.g., too much trading, chasing performance or panicking.

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## Your Taxes

- Some experts believe that the tax treatments of your accounts should be accounted for in your asset allocation.

### **For example:**

If you have \$100,000 invested in bonds in a traditional IRA or 401(k), and \$100,000 invested in stocks in a Roth IRA, you have an asset allocation equally split between stocks and bonds.

However, because the IRS will claim 25% of the money in the money in your traditional IRA, you only have \$75,000 in bonds so, you really own just \$75,000 in bonds, so your portfolio is really 43% bonds and 57% stocks.



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## Your Taxes (continued)

- Once you have filled up your tax-advantaged retirement accounts, reduce Uncle Sam's co-ownership of the investments in your taxable brokerage accounts by choosing investments that allow you to keep more of the return. For example:
  - A stock that doesn't pay a dividend over one that does.
  - An index fund over an actively managed fund (because index funds tend to lead to lower tax bills).



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## Rule # 3: Rebalance

- Rebalancing simply involves periodically checking the allocation of the different types of investments in your portfolio and bringing them back to your desired percentages if they get out of line.
- As you age, consider rebalancing to change your portfolio's asset mix.
- Rebalancing will not always increase returns, but it will always reduce the riskiness of the portfolio.

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## 7 Mistakes to Avoid When Saving for Retirement

### 1. Forgetting about the Effects of Inflation

If prices rise 4% annually then:

One Dollar Today	=	\$1.00
5 years from now	=	.82
10 years from now	=	.66
20 years from now	=	.44

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## 2. Not Having a Proper Asset Allocation

- Is the combination of assets in a portfolio and their proportion to one another.
- Builds a balanced portfolio with appropriate diversification across asset classes.
- Helps reduce volatility

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## 3. Risk Longevity – Outliving your Retirement Assets

Risk is Increased By:

- Underestimating your time in retirement.
- Underestimating your spending in retirement.
- Underestimating taxes in retirement.
- Failing to plan for health care expenses.

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## 4. Overconfidence

“As an investor, what should you do about forecasts - forecasts of the stock market, forecasts of interest rates, forecasts of the economy?”

**Answer: NOTHING**

You can save time, anxiety, and money by ignoring all market forecasts.”



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## 5. Beware Mr. Market & His Two Objectives.

- The first is to trick investors into selling stocks or mutual funds at or near the market bottom.
- The second is to trick investors into buying stocks or mutual funds at or near the top.



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## 6. Not Paying Attention to Fees & Expenses

“There is one investment truism that, if followed, can dependably increase your investment returns:

**Minimize Your Investment Costs**



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## 7. Beware of Stockbrokers

- Brokers have one priority: to make a good income for themselves. The stockbrokers real job is not to make money for you, but to make money from you.
- Unlike Registered Financial Advisors, they do **not** have a fiduciary responsibility to serve your best interests when making investment recommendations.



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**Do you need an investment adviser?**

**Maybe**

You might want to consider using an investment adviser on a flat fee basis to set up your initial investment strategy and then get a check-up on an annual basis.



# Women and Retirement:

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Women of the baby boom generation are more likely to be divorced than women from other generations and to have fewer children to rely on in their old age.

A couple must have been married 10 years before an ex can claim spousal Social Security benefits. But most divorces occur within the first seven years of marriage.

# Women and Retirement:

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## □ Some sobering facts from the Center for Retirement Research at Boston College:

As employers drop defined-benefit plans (pensions) for defined-contribution plans (401(k)s, divorced women may suffer. Traditional pensions give wives an automatic claim on their spouse's benefits, but 401(k) plans usually do not (not applicable to CERF).



# Women and Retirement:

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Despite being an average of three years younger than their spouses, wives usually retire when their husbands do. This can cut short their careers, savings, and retirement benefits.

Among single women, 65 and older, 28.2% are considered poor or near poor, compared with 22.7% for non-married men and 8.1% for married people in the same age group.

# Women and Retirement:

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## □ What's a Women to Do?

The solution for all women – single, married, widowed or divorced – is to take control of their financial futures by considering the following:

- It stands to reason that since women live longer, they should consider retiring later.
- For married couples, both spouses should be involved in the day-to-day management of the finances.



# Women and Retirement:

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The average woman lives five years longer than the average man. Sounds good, but it means women have to stretch their retirement savings longer.

Some of the biggest health-care costs are incurred in the year prior to death, which reduces financial resources left to surviving family members. Those survivors are most likely to be women, since wives tend to outlive their husbands.

# Women and Retirement:

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- Remember that a married person can receive a Social Security benefit based on her or his work record, or their spouse's work record, whichever is greater. Because of their lower lifetime earnings, approximately two-thirds of wives receive benefits on their husband's work record.
- But if the husband applies for Social Security benefits early – and thus receives a reduced monthly payment – the survivor benefit will also be lower.





# Women and Retirement:

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- For this reason, husbands should consider postponing the application for Social Security benefits as long as possible. The same principle generally applies to defined-benefit pensions, so be sure to consider the benefit to the surviving spouse when your making pension decisions.

# Women and Retirement:

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## □ Some troubling statistics:

Women on average, earn 76% of what men earn, resulting in an average lifetime earnings differential of \$250,000.

Women leave the workforce for an average of 12 years to raise children or care for relatives, resulting in a loss of \$550,000 in wages over their lifetimes.



# Investing for Retirement - Summary

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- ❑ **Develop good saving habits.**
- ❑ **Become an educated investor.**
- ❑ **Avoid making mistakes.**
- ❑ **Follow these simple, bedrock rules on personal finance. (Handout)**



# Resources (Books)

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- **The Elements of Investing**
  - Burton G. Malkiel & Charles D. Ellis
  
- **Yes, You Can Get A Financial Life!**
  - Ben Stein & Phil DeMuth
  
- **You Can Retire Sooner Than You Think – The 5 Money Secrets of the Happiest Retirees**
  - Wes Moss



# Resources (Books)

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- **The Complete Guide to Investing in Index Funds**
  - Craig Baird
  
- **All About Asset Allocation**
  - Richard Ferri
  
- **The Only Guide You'll Ever Need for the Right Financial Plan**
  - Larry E. Swedroe



# Resources (Books)

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- **The Smartest Portfolio You'll Ever Own**
  - Daniel R. Solin
  
- **The Truth About Buying Annuities**
  - Steve Weisman
  
- **Make Your Own Living Trust**
  - Denis Clifford – NOLO Publishing



# Resources (Books – a little deeper)

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- **The Four Pillars of Investing**
  - William Bernstein
  
- **A Random Walk Down Wall Street**
  - Burton G. Malkiel
  
- **The 7 Most Important Equations for your Retirement**
  - Moshe A. Milevsky

# Resources (Websites)

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## □ To Create a Retirement Budget

- [fidelity.com](https://www.fidelity.com) – In the Retirement Income Planner section
- [kiplinger.com/tools/budget](https://www.kiplinger.com/tools/budget)

## □ To Research Annuities

- [immediateannuities.com](https://www.immediateannuities.com)



# Resources (Websites)

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## □ Financial Planning Resources

- [vanguard.com/us/whatweoffer/advice/financialplanning/services](https://www.vanguard.com/us/whatweoffer/advice/financialplanning/services)
- [betterment.com](https://www.betterment.com)
- [wealthfront.com](https://www.wealthfront.com)

# Resources (Websites)

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## □ Retirement Calculators

- [aarp.org](http://aarp.org) – “Money & Work”, “Financial Planning & Retirement”, “Retirement Planning Calculator”
- [fidelity.com](http://fidelity.com) – “MyPlan Calculator” or “Retirement Quick Check”
- [FIREcalc.com](http://firecalc.com) – Motley Fool’s favorite
- <http://www.free-online-calculator-use.com/calculate-retirement-savings.html>

# Resources (Websites)

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## □ Reverse Mortgage Information

- [rmaarp.com](http://rmaarp.com)
- [goldengateway.com](http://goldengateway.com) (click on “Do the Math”)
- [mtgprofessor.com](http://mtgprofessor.com)

## □ Roth Conversion Calculators

- [wsj.com/RothIRAWorksheet](http://wsj.com/RothIRAWorksheet)
- [RothRetirement.com](http://RothRetirement.com)
- [Personal.vanguard.com/us/RothConversion](http://Personal.vanguard.com/us/RothConversion)

# Resources (Websites)

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- **To Evaluate Stocks/Bonds/Mutual Funds**
  - [morningstar.com](http://morningstar.com)
  
- **Insurance Information Institute (Annuities)**
  - [iii.org/individuals/annuities](http://iii.org/individuals/annuities)
  
- **To Check Annuity/Insurance Companies' Financial Strength**
  - [Insure.com](http://insure.com)

# Resources (Websites)

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## □ Stock Market Simulation

- [vse.marketwatch.com](http://vse.marketwatch.com)

## □ To Improve your Bottom Line

- [money.cnn.com/pf/retirement/index.html](http://money.cnn.com/pf/retirement/index.html)
- [moneychimp.com](http://moneychimp.com)
- [getrichslowly.org](http://getrichslowly.org)
- [investopedia.com](http://investopedia.com)(An investing dictionary)

# Resources (Websites)

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- **To Track All your Money in One Place**
  - [moneycenter.yodlee.com](http://moneycenter.yodlee.com)
  - [mint.com](http://mint.com)

# Resources (Websites)

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- **Sources for vetting your financial adviser.**
  - Financial Industry Regulatory Agency
    - [www.finra.org](http://www.finra.org)
  - For Firms Regulated by SEC (over 25 million)
    - [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

# Resources (Websites)

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- Sources for vetting your financial adviser.
  - For Advisers Education and Work History
    - Certified Financial Planner Board of Standards Inc.
      - [www.cfp.net](http://www.cfp.net)
    - Financial Planning Association
      - [www.fpanet.org](http://www.fpanet.org)





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**Thank You!**

Questions

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# EMPOWER Resources

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