FINANCIAL PLANNING FOR AGES 65+

Enjoying your chill-out years

At Tulett, Matthews & Associates, we understand that retirement is a significant milestone requiring careful planning and strategic financial management. Our *Financial Life Planning Guide for Ages 65+* is a comprehensive resource designed to help you navigate this crucial phase of life with confidence. We believe financial security in retirement goes beyond simply managing your portfolio—it's about taking control of your financial future with a plan that's uniquely tailored to your personal circumstances and long-term goals.

As you enter the retirement phase, your financial priorities naturally shift. The focus moves from wealth accumulation to preservation, while ensuring a sustainable income stream that supports your desired lifestyle. Our approach involves balancing capital preservation with long-term growth, managing withdrawal rates, and minimizing taxes on investment withdrawals. Additionally, maintaining updated estate plans and insurance policies is crucial to protect both your loved ones and your legacy. We recognize that transitioning from a saving to a spending mindset can be challenging, but with a thoughtful and well-structured plan, you can approach this phase with confidence and peace of mind.

By addressing key areas such as investment strategy, debt management, risk management, and tax planning, we guide you through the complexities of retirement with clarity and assurance. Our goal is to empower you to live your retirement years on your own terms, knowing that your financial plan is as resilient and adaptable as your aspirations. With our guidance, you can fully enjoy your "chill-out years," confident that your financial future is secure.

INTRODUCTION

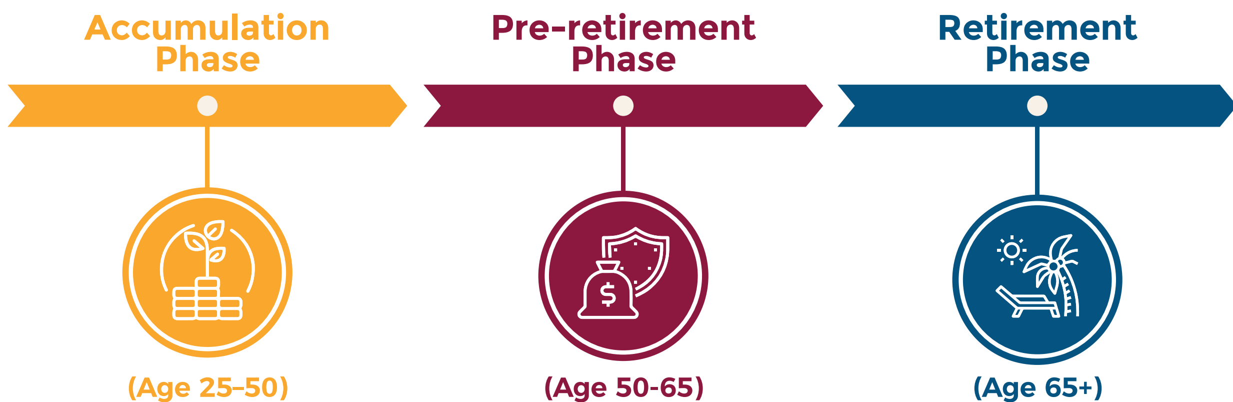
As we described in our book, **The Empowered Investor**:

> *"Securing your family's financial destiny—the core of becoming an empowered investor—involves more than just managing your portfolio and investments, although that is a crucial element. It means taking control of the financial planning process and developing a personal financial plan."*

In other words, if you don't start with a plan, and then structure your investments accordingly, the money alone may not take you where you're hoping to go.

That's where personal financial plan comes in, to help you discover, document, and aim your money toward your heart's desires. It goes beyond your investments, to take in every aspect of your life. Are you a business owner or an employee? Married or single? With children or without? Eager to retire or wanting to work as long as possible? A world traveler or happiest at home? And so on.

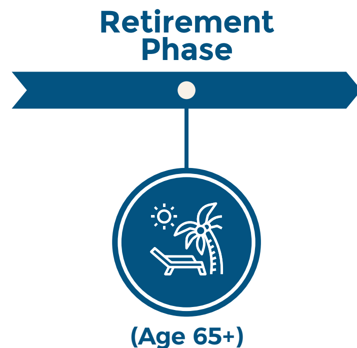
Your planning should also factor in where you stand so far. As the saying goes, a picture speaks a thousand words, so let's illustrate rather than describe what we mean by that:



You'll notice we've segmented life planning into three phases: accumulation, pre-retirement, and retirement. But these phases and age ranges serve as helpful guidelines, not strict parameters. For example, it's never too late to focus on accumulating wealth, nor is there a bad age at which to manage your debt load. Just as each of us learns to walk and talk in our own good time, your own planning phases may march to the beat of a different drummer—and that's just fine.

With that caveat, let's explore each planning phase at greater length, from your foundational years, to your power plays, to when you start chilling out. In the meantime, if you have questions or comments about how to integrate financial life planning into your own life's adventures, please reach out to us any time.

ENJOYING YOUR CHILL-OUT YEARS



Recommendations

- Live within a sustainable portfolio drawdown rate
- Focus on preserving capital with some long-term growth
- Minimize taxes on investment withdrawals
- Keep wills & Powers of Attorney (POA's) updated

There's one question many of us ask as we prepare for and enter into retirement:

Do I have enough?

Most of us also share several common goals in retirement: We want to be healthy, and enjoy our personal hobbies, interests, and passions. We want to have ample time to spend with our family, friends, and community. We want to live independently for as long as possible. We may want to gift to others, but without harming our own financial well-being.

> *"We think of retirement as the time in your life when you get to try out things you've always wanted to do, and keep doing whatever you love doing—when and how you want to do it."*
>
> ~ Keith Matthews. Tulett, Matthews & Associates

Even if your planning and goals are on familiar turf, the unique "landscape" you've cultivated in your life will shape how much it's going to cost you, and what it's going to take to feel confident you have achieved your "enough", with reserves to spare. Moreover, spending without purpose can leave a hole in your soul, so it's important to identify what will truly make you happy, and prioritize your wealth accordingly.

SPENDING IN RETIREMENT: THE BIG SHIFT

It's not uncommon to feel financially unsettled in early retirement; as you shift gears from saving and investing into spending and preservation, your focus and pace often change.

1. **Expenses:** First, estimate how much you need to live an enjoyable retirement. Factor in early spending during your go-go years, and likely higher healthcare costs as you age.
2. **Secure Income:** Next add up your secure income streams, such as your government pension and any company pension plans.
3. **Bridging the Gap:** You'll probably discover a gap between your expenses and guaranteed income. This represents the amount you'd like to take from your investment portfolio. But what is your sustainable withdrawal rate?

MONTE CARLO ANALYSIS: MAKING THE MONEY LAST

A sustainable withdrawal rate is the percentage you can take from your portfolio year after year for the rest of your life, and still have cushion at the end.

Popular rules of thumb such as the "**4% rule**" may be easy to implement. But blindly adhering to them is like following GPS traffic directions regardless of real-life conditions. We would suggest such rules are better used to shape than to drive the discussion.

For improved confidence, we typically incorporate personalized Monte Carlo analysis. Rather than accepting a straight "yes" or "no" estimate for your safe withdrawal rate, this helps us consider a wide range and likelihood that good, bad, or ugly outcomes might happen to you under various scenarios.

An odds-based analysis can help you select—and sustain—a withdrawal rate that makes sense for you and your preferred lifestyle, even as your needs may evolve over time. You can learn more about how Monte Carlo analysis works in our related podcast, "**Chilling Out: Planning for Retirees**".

KEEPING YOUR FINANCIAL GEARS TURNING

Studies have found, people often report their highest levels of happiness between ages 65–80, at least in Western countries. But for most of us, retiring happily ever after takes careful planning, and continued attention to the six financial "gears" we've been discussing throughout this guide.

1. **Retirement Planning:** Retirement planning doesn't end when you retire. In fact, you're likely to be kicking it into even higher gear, since it's much easier to relax and enjoy yourself if you know you have a comfortable lead. Conversely, happiness can elude you if you don't know where you stand, or how to sustain your standard of living over time.
2. **Investing**: Having an investment plan also remains as important as ever. To depend on your investment portfolio over the next 25–30 years, the trick is to maintain an appropriate balance of stocks and bonds, without taking on crazy levels of market risk. You typically don't want to move everything to cash or similar safe harbors, lest inflation consume too much of your spending power over time.
3. **Debt management:** Ideally, retirees should be debt-free for optimal peace of mind. Interest payments serve as a double whammy as you begin to spend down your assets. If you're still paying off a mortgage (as many of us are), you may at least watch for refinancing opportunities to help you affordably accelerate the payoff terms.
4. **Risk management:** Your insurance needs may not be what they once were if you no longer have dependents or a salary to be replaced if it went away. However, exceptions abound, such as if you are still paying off your mortgage, or you hold business assets, property with a low adjusted cost basis, or secondary property such as a rental cottage.
5. **Estate planning:** To be blunt, if you don't put your preferences in writing, the government will do it for you, and odds are, they won't make the same choices you would have. Even once your estate plans are in place, things change. Revisit the paperwork every few years, to ensure it remains relevant.

6. **Tax planning:** How you spend down your registered and taxable accounts can make or break your after-tax wealth. There also are opportunities to receive, spend, and transfer wealth more or less tax-efficiently. Consider having your taxes professionally prepared.

A WORD ABOUT REAL ESTATE

Before we wrap, let's address one more frequently asked question: How does your home fit into your retirement plan?

Especially in today's hot real estate markets, your home, sweet home may also house a good chunk of your wealth. It's nice if your property has value, and it's reasonable to include home equity in your financial planning. But we caution against overweighting your wealth into an asset whose highest purpose is to serve as the roof over your head.

Rather than treating your home equity as integral to retirement spending, think of it as an emergency reserve. For example, it's there if you face a health crisis and need to move to assisted living. But ideally, you want to plan your retirement assets so you can choose whether downsizing fits your lifestyle, rather than being forced to change your address because you can't afford to do otherwise. To explore this subject further, check out our podcast, "**Wealth and Real Estate: Empty Nesting and Downsizing Homes**".

Key Takeaways:

- Retirement can be an especially satisfying time in your life. But it's much easier to relax and enjoy yourself if you have a comfortable lead. Conversely, happiness can elude you if you don't know where you stand, or how to sustain your standard of living.
- Financial priorities include intensive retirement planning, sensible investment allocations, tax-wise withdrawal strategies, debt elimination, updated estate plans, and revisiting any insurance requirements.
- To determine a safe withdrawal rate, it helps to factor in the range and likelihood that good, bad, or ugly outcomes might happen.
- It's reasonable to include home equity in your planning. But avoid overweighting wealth into an asset whose highest purpose is to serve as the roof over your head.
- Achieving a secure, independent retirement is about striking a confident balance between enjoying your ideal lifestyle and sticking to a sustainable budget.

WANT MORE IN DEPTH INFORMATION?

Tune into the **"Chilling Out: Planning for Retirees"** podcast, where we explore essential strategies for a sustainable retirement. Learn how to determine your withdrawal rate, tackle key financial challenges, and ensure your retirement is secure and enjoyable. Tune in for expert insights on making the most of your retirement years.

ADDITIONAL READING:

- **The Richest Man in Babylon**: George S. Clason
- **Global Retirement Savings Guidelines**: Fidelity
- **The Way to Wealth**: Benjamin Franklin
- **The Little Book of Common Sense Investing**: John Bogle
- **Retirement Planning Guidebook**: Wade Pfau, PhD, CFA, RICP
- **Your Complete Guide to a Successful and Secure Retirement**: Larry Swedroe
- And, as always, our own book: **The Empowered Investor**

APPENDIX

Global Retirement Savings Guidelines: Fidelity

Global retirement savings guidelines

Engaging workers in financial planning

Insights into the purpose and development of Fidelity's integrated and globally-consistent set of retirement savings guidelines.

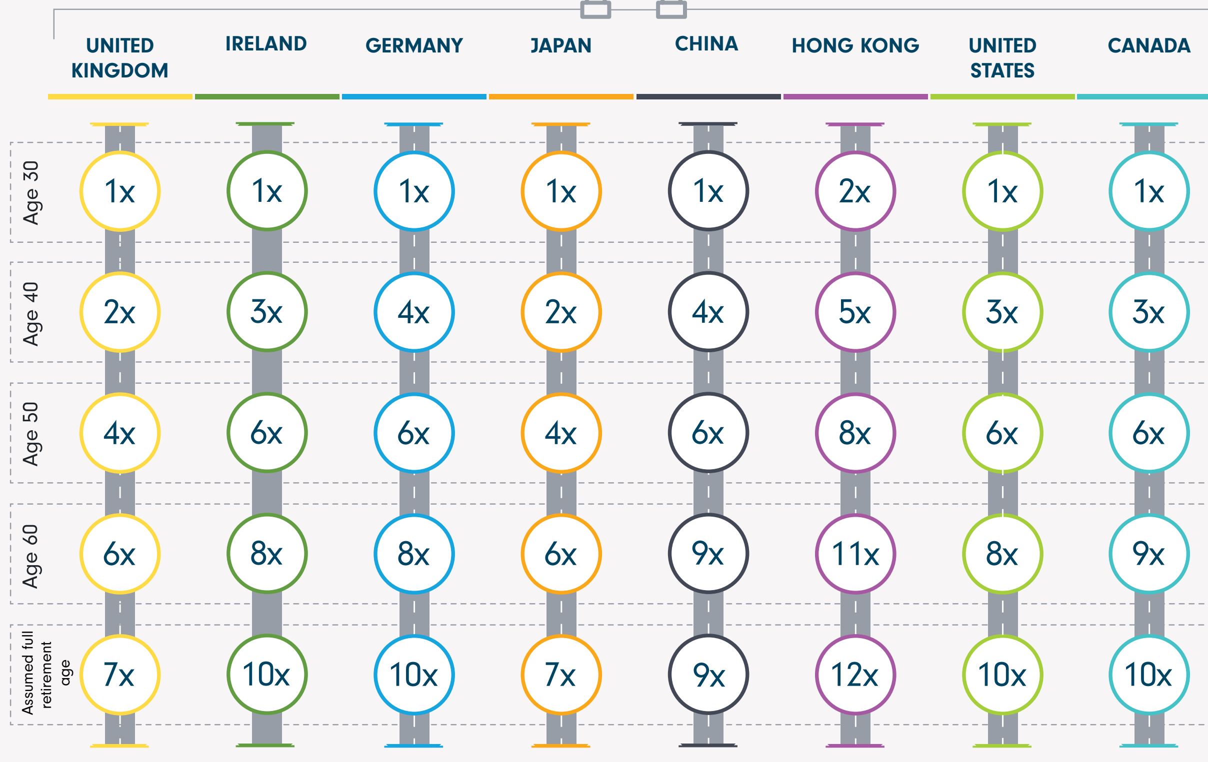
Fidelity International & Fidelity Investments
Workplace Investing Thought Leadership
September 2020

Fidelity™ INTERNATIONAL | Fidelity® INVESTMENTS

Savings milestones

Fidelity's global savings milestones

Estimating how much you will need to save by the time you retire and along the way.
Simply multiply your current income by age to give you a savings target consistent
with the savings balance needed to maintain your lifestyle in retirement.



	UNITED KINGDOM	IRELAND	GERMANY	JAPAN	CHINA	HONG KONG	UNITED STATES	CANADA
Age 30	1x	1x	1x	1x	1x	2x	1x	1x
Age 40	2x	3x	4x	2x	4x	5x	3x	3x
Age 50	4x	6x	6x	4x	6x	8x	6x	6x
Age 60	6x	8x	8x	6x	9x	11x	8x	9x
Assumed full retirement age	7x	10x	10x	7x	9x	12x	10x	10x

Fidelity's suggested savings milestones (expressed as multiples of current income at different ages) are based on our research, which estimates the savings balances at different ages that are consistent with the accumulation of savings necessary to maintain a pre-retirement lifestyle through retirement. In turn, these savings balances reflect an estimate of the region-specific % of preretirement annual income (assuming no pension income) through a planning age specific to each region that would be necessary to maintain that pre-retirement level of income in retirement.

The region-specific income replacement targets were found to be generally consistent across a range of pre-retirement household incomes – income at the point of retirement.

The savings milestone suggestions may have limited applicability if your pre-retirement income is expected to fall outside that range. Individuals may need to save more or less than the suggest savings rate guideline depending on retirement age, desired retirement lifestyle, assets saved to date, and other factors.

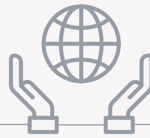
Fidelity developed the savings milestones through multiple market simulations based on historical market data. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions.

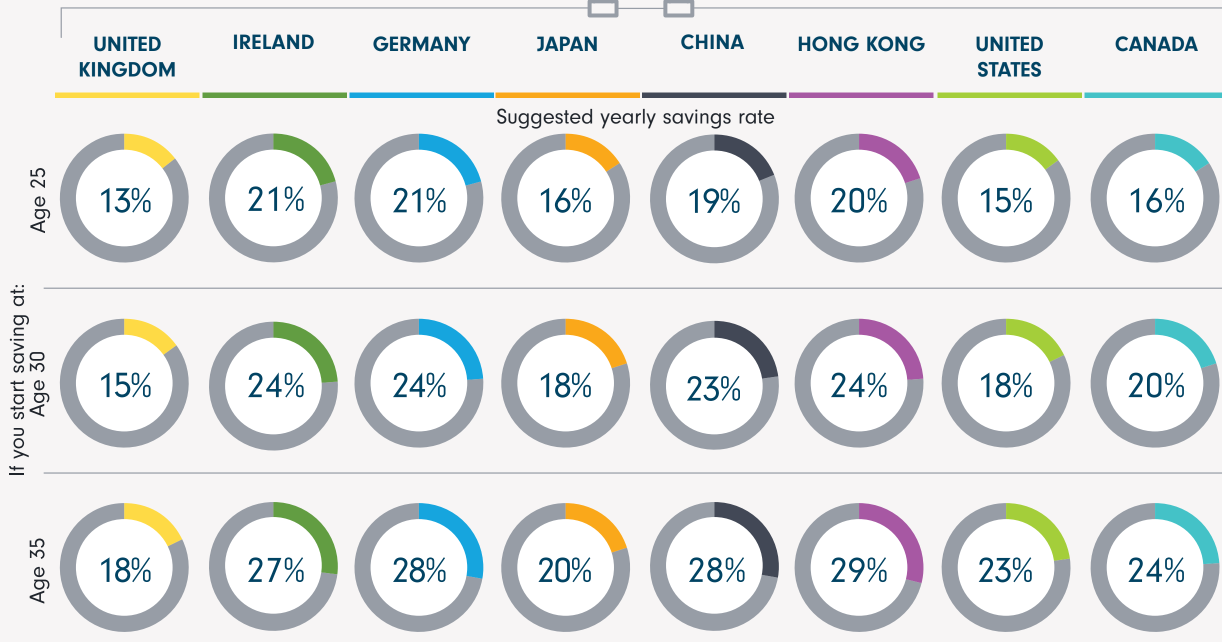
Given the region-specific assumptions, including retirement age, planning age (life expectancy), wage growth, and income replacement targets, the Retirement Savings Guidelines were evaluated at the 90th percentile confidence level for the U.S. and China. Guideline values for all other regions were evaluated at the 80th percentile for the accumulation (working and saving) phase and the 90th percentile for the decumulation (retirement) phase. The average lifetime equity allocation of the hypothetical portfolio was assumed to be roughly 50%. Remember, past performance is no guarantee of future results. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns will also generally be reduced by taxes.

Fidelity Investments and Fidelity International are seperate trading names and through their combined networks provide global asset management and benefit administration solutions to customers. "Fidelity" refers to the combined network of brands that encompass Fidelity Investments and Fidelity International.

Yearly savings rate

Fidelity's global retirement savings rate





Fidelity's suggested total pre-tax savings rates (expressed as a % of pre-tax current income) are based on our research, which indicates that most people would need to contribute at these rates from an assumed starting age of 25 through an assumed retirement age specific to each region (see general disclosure for regional details on retirement ages) to potentially support an income level equal to region-specific % of preretirement annual income (assuming no pension income) through a planning age specific to each region. The region-specific income replacement targets were found to be generally consistent across a range of pre-retirement household incomes – income at the point of retirement.

The savings rate suggestions may have limited applicability if your pre-retirement income is expected to fall outside that range. Individuals may need to save more or less than the suggest savings rate guideline depending on retirement age, desired retirement lifestyle, assets saved to date, and other factors.

Fidelity developed the savings rate targets through multiple market simulations based on historical market data. These simulations take into account the volatility that a variety of asset allocations might experience under different market conditions. Given the region-specific assumptions, including retirement age, planning age (life expectancy), wage growth, and income replacement targets, the Retirement Savings Guidelines were evaluated at the 90th percentile confidence level for the U.S. and China. Guideline values for all other regions were evaluated at the 80th percentile for the accumulation (working and saving) phase and the 90th percentile for the decumulation (retirement) phase. The average lifetime equity allocation of the hypothetical portfolio was assumed to be roughly 50%.

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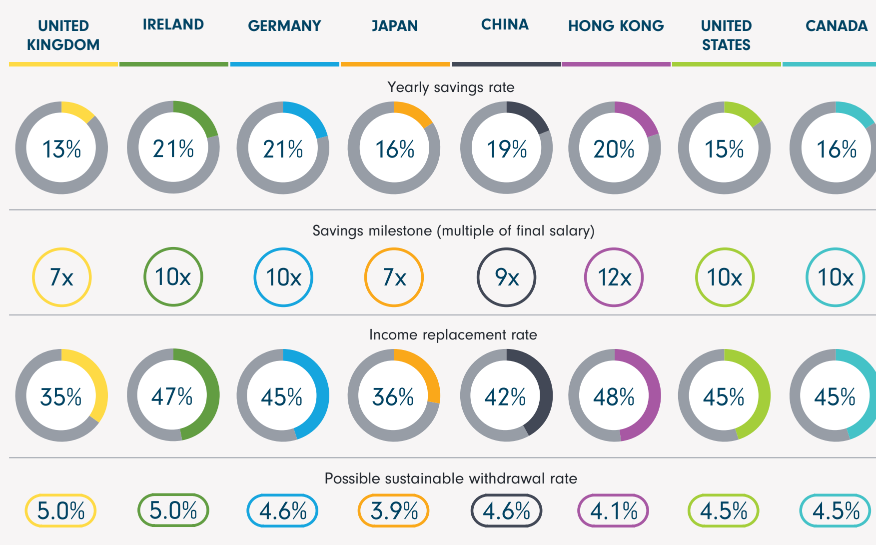
Retirement Savings Guidelines: A Regional Comparison

As described in the previous section, the Retirement Math Framework provides guidelines for a set of four retirement metrics – required yearly savings rate, income replacement ratio, savings milestones and possible sustainable withdrawal rate.

The values for these guidelines will vary across regions due to differences in a variety of region-specific assumptions including observed saving/spending behaviour, taxation, structure of state/government pension and health insurance schemes, mortality, assumed retirement age, wage growth, inflation, and capital market assumptions. Individually and in combination, these differences in assumptions/inputs result in cross-region differences in guideline values. It is important to note that while the guideline values may be different across regions, the underlying analytical framework that produces those values is globally consistent and produces guidelines that are locally relevant and globally comparable.

Regional results are summarised in the following sections. Additional insights can be gained by reviewing this paper's Appendix materials.



Definitions:

Yearly savings rate: The suggested annual rate of (pre-tax) savings over a full working lifetime.

Savings milestones: Age-based savings targets expressed as multiples of current income.

Income replacement rate: The percentage of pre-retirement income that an individual/household should target to replace annually from their personal savings (including workplace savings) in retirement in order to maintain pre-retirement lifestyle.

Possible sustainable withdrawal rate: The real (inflation-adjusted), annual withdrawal amount expressed as a percentage of the initial (at retirement) asset balance.

Footnotes:

Hong Kong savings rate - 20% savings rate is net of an assumed 5% MPF contribution from both employer and employee pay.

Japan's income replacement rate - 28%, which excludes 8% income replacement from an assumed final lump sum salary payment of 2x annual pre-retirement salary.

Canada's income replacement rate assumes CPP enhancement, fully realised in base case (Current Age = 25).

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