Fix Your Finances 2020 Class 10 Retirement and College Plans **Quick Review**

Build Your Financial House in the Right Order

Other Goals and Dreams

Retirement-College Savings

Understanding Investments

Pay Off Bad Debt- Home Ownership

Protect Your Income and Liabilities

Budget - Emergency Fund

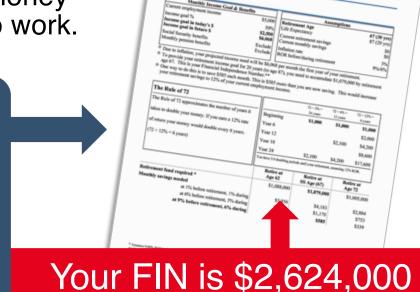


Funding Your FIN Number

Your **FIN** is the amount of money you'll need to accumulate, so that someday you can live off that money for the rest of your life and never have to go back to work.

Example: You want to retire in 30 years, with \$100,000 a year in todays dollars

30 years from now, after 3% inflation... \$243,000 spends like \$100,000 does today.



Retirement Needs

To get there, invest \$1,421 per month for 30 years at 9% = \$2,624,400 Lets Find Out What Your FIN Number Is.....

This hypothetical example assumes 20 years of retirement income needed, at a 6% post-retirement rate of return and 3% inflation. Hypothetical investment rates assume a nominal 9% rate of return, compounded monthly, and are not indicative of any specific investment. Any actual investment may be subject to taxes and fees, which would lower performance. This example shows a constant rate of return, unlike actual investments which may fluctuate in value.



Canadian Retirement Savings Plan (RRSP)

Benefit:

- Tax deferral until retirement.
- Gives you and your spouse the potential to contribute up to \$26,500* of earned income in the previous year minus pension adjustments (up to annual limits set by Canada Revenue Agency) off the top of your gross income, which reduces your taxable income.



Benefit:

- Earnings on your TFSA are tax deferred forever.
- Contributions will grow on a tax- deferred basis. More of your money is allowed to grow and compound than if taxes were taken out of your account each year.
- Postpone payment of taxes on any earnings forever.
- Annual TFSA limit \$6,000*.

*2019 TFSA contribution limit. Source: Canada Revenue Agency

Tax Free Savings Account (TFSA)

Defer taxes as long as possible.

Allows you to collect OAS (old age security)
 Maybe even the supplement.

Collect CPP (Canada Pension Plan).

 Allows you to pay less tax during retirement than when you were working and saving for retirement.

Enjoy your well deserved "Golden Years"....

• Utilize Tax efficient strategies:

RRSP's can be rolled to RRIF (<u>Registered</u> retirement income funds)

 Pensions can often be rolled to LRIF (Locked in retirement income funds)

Open-Cash accounts can utilize T series
 Mutual funds which allow a 5% or 8% tax
 free withdrawal for up to 13 years.



Company Sponsored Retirement Plans USA

- Traditional and Roth 401(k)
- 403(b)
- 457(b)





- 401(k) contribution limits will increase from \$19,000 in 2019 to \$19,500 in 2020.
- The 401(k) catch-up contribution limit for workers 50 and older rises from \$6,000 to \$6,500 so, in total, those 50 and up can contribute up to \$26,000 to their 401(k)s.
- 403(b) contribution limits will grow from \$19,000 to \$19,500, as well.
- The 403(b) catch-up contribution limit for people 50 and older rises from \$6,000 to \$6,500 so, just like with 401(k)s, those 50 and up can contribute up to \$26,000 to their 403(b) plans.
- Most 457(b) plans will have increased contribution limits as well, according to the IRS announcement. They will rise from \$19,000 to \$19,500 in 2020.
- Catch-up contributions for most 457(b) plans will rise from \$6,000 to \$6,500 for people 50 and older. For more details on 457(b) plan contributions

Switching Jobs- Options For Your Retirement Plans

- A rollover is a tax-free distribution of cash or other assets from one retirement plan to another retirement plan. The distribution to the second retirement plan is called a "rollover contribution
- A lump sum distribution. This allows you to cash out your account in full with a single payment. You will owe taxes and may have to pay tax penalties if you take money out before the age of 59½.
- A rollover to another retirement plan. You can ask your former employer to transfer your account balance directly to your new employer's plan if it accepts such transfers.
- A rollover to an IRA. You can ask your former employer to transfer your account balance to an individual retirement account (IRA) where it can continue to grow over time, giving you more income to live on in retirement.
- No changes. You may be able to leave your account balance in your former retirement plan.



Advantages to Rolling Over Your Plan

- 1. More Investment Choices
- 2. Better Communication
- 3. Lower Fees and Costs
- 4. The Roth Option
- 5. Cash Incentives
- 6. Fewer Rules
- 7. Estate Planning Advantages

Self Employed Plans



SEP IRA- Sole Proprietor



SIMPLE IRA

Self Employed Plans

- SEP IRA. Allows an employer, typically a small business or self-employed individual, to make retirement plan contributions into a traditional IRA established in the employee's name.
- SIMPLE IRA. Is available to small businesses that do not have any other retirement savings plan. The SIMPLE which stands for Savings Incentive Match Plan for Employees IRA allows employer and employee contributions, similar to a 401(k) plan, but with simpler, less costly administration, and lower contribution limits.



USA
Individual
Retirement
Accounts (IRAs)

- Traditional IRA
- Roth IRA



 But what about contribution limits for Individual Retirement Accounts (IRAs)? Unfortunately, the announced increases from the IRS don't apply to IRAs. The annual contribution limits for Traditional IRAs and Roth IRAs remain at \$6,000 for 2020. If you're 50 or over, your catch-up contribution is still \$1,000, and it isn't subject to an annual cost-of-living-adjustment.

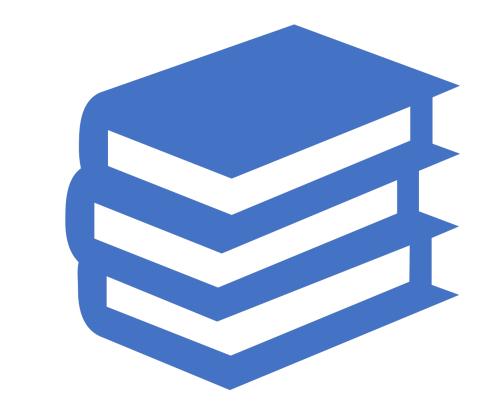
Which IRA Do You Prefer?

You have a few choices when it comes to IRAs. Which one works best for your situation?

- Traditional IRA, Deductible
- Roth IRA, Non-deductible but not taxed at withdrawal



College Plans USA



CESG and RESP

- While Americans can save for their children's education in a tax-advantaged investment plan, Canadian children can have grants awarded to them at birth. Through the Canadian Education Savings Grant (<u>CESG</u>), parents can start saving for their children's education literally at day one. Even better, the Canadian government will pitch in for part of the tab.
- How the CESG Works
- Parents can open up a Registered Education Savings Plan (RESP) at a bank, credit union, or other financial institution. Anyone can contribute, whether it's mom, dad, or a favorite aunt or uncle. Since a RESP is an investment account, it could have fees attached. Parents should be careful to choose one that's right for their children.
- The government then matches the money up to a certain percentage and deposits it into your child's RESP. The extra funds the government deposits are called the Canadian Education and Savings Grant. For 2019, the base match was 20% on the first \$2,500 of contributions for all families. The maximum grant was \$500 for high-income families. Families making between \$47,630 and \$95,259 were eligible for an additional 10% grant on the first \$500. Those with adjusted family incomes below \$47,630 could get an extra award of 20% on the first \$500. Each child can earn up to \$7,200 in lifetime grants.
- Parents won't initially pay taxes on the money, so they have a double incentive to save for their child's education. They avoid paying taxes and get bonus money for the child's education in the process. There are many other tax breaks for Canadian families.

College Savings Plans- USA

- 529
- Coverdell Education Savings Account
- UTMA/UGMA



How Does the American 529 Plan Compare?

- The American 529 Plan is similar to a RESP in that it is an investment vehicle for parents to contribute to their child's education. Contributions made to 529 plans are made with after-tax dollars, and the earnings accumulated in the plan grow tax-free at the federal level.
- The biggest advantage of this structure is that you end up paying no taxes on your withdrawals if they go to qualified education expenses. However, you make contributions with after-tax dollars. That means high-income parents pay a higher tax rate on their contributions than the student receiving the money would have paid. On the other hand, the majority of states do offer state tax deductions for parents' contributions.



Recap

Fix Your Finances 2020 Class 11- Developing an Income Plan

Getting Started

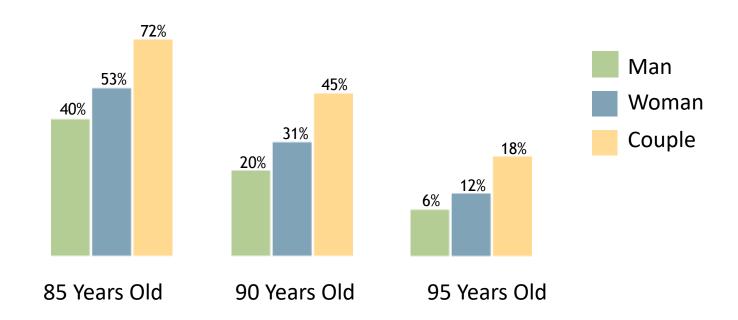
- Take a look at where you are- Balance Sheet equals Net Worth
- Ask the Questions
- Take a look at your Income Sources
- Run a Profit Loss Based on current conditions
- Make Changes and Focus on Raising Income and Cutting Expenses creating a Gap
- Project 1 year from now where you will be and ultimately get you FIN Calculated so you can quit
- Create a Written Plan –

We are Living Longer

With advances in medicine, more and more people are living longer.

"By age 65, U.S. males in average health have a 40% chance of living to age 85 and females have a 53% chance of living to age 85. If the couple is married, there's at least a 72% chance that at least one of them will live until age 85."

HealthView Service, 2015 Retirement Health Care Cost Data Report, May 18, 2016



The Biggest Fears in Retirement

- Of all the things that keep retirees up at night, the biggest fear is running out of money
- Questions....
- How do I Eliminate Debt
- How long will I live?
- Will my investments hold up?
- Will unexpected costs or events erode my savings?



Are You Financially Ready to Retire?

- To discover whether or not you're ready to retire or how much you'll need to retire in the lifestyle you've always imagined, ask yourself:
- How much money do I need? FIN Number
- As a general rule of thumb, most people will need anywhere from 80% to 100% of their gross income during their early retirement years.



Discover How Much Money You'll Need

- Age/years to retirement
- Current retirement assets
- Monthly income in retirement
- Monthly expenses in retirement
- Asset allocation

Retirement Recommendations

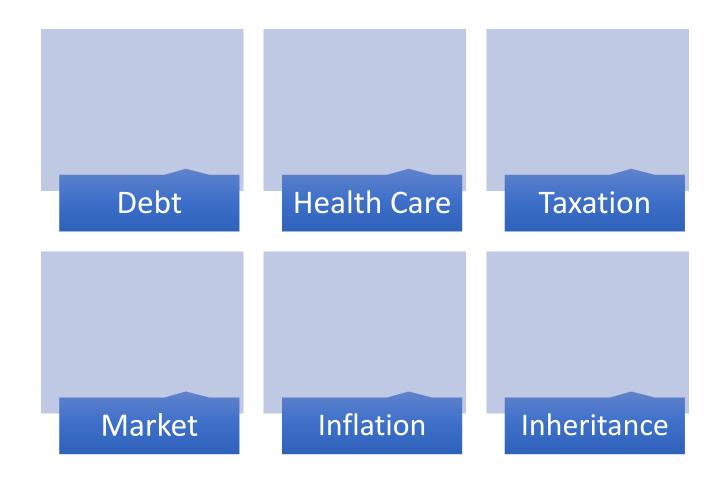
- If someone asks me how much do I need to retire the rule of thumb is 16x-20x your current pre-retirement income. This number can be reduced by any pension or social security.
- EXAMPLE: \$60,000 annual income x 16
- Total retirement goal \$960,000
- \$960,000 x 6% =\$57,600 per year
- If the funds get 8% then it should provide a growing retirement income stream
- Always re-adjust income yearly based on 6% of yearend values for the next years income

What will I be spending my money on?

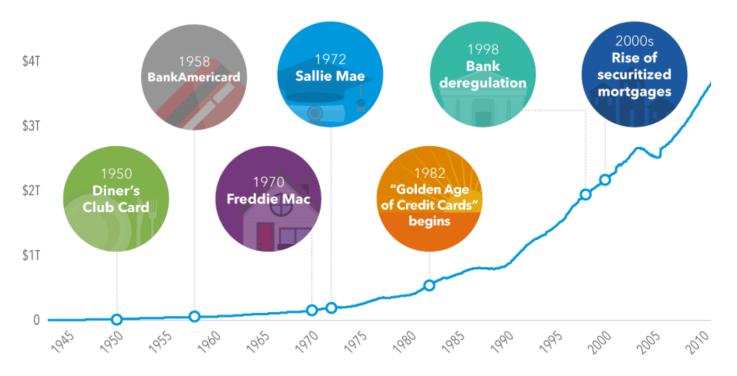
Potential Income Sources	Potential Monthly Expenses
 Social Security (CPP and QPP in Canada) Employer pension payments Qualified retirement plans Non-qualified retirement plans Real estate income Post-retirement employment Investment income Other Income 	 Housing (mortgage, insurance, taxes and maintenance) Utilities/Water/Phone Taxes* Groceries Transportation (loan/lease amount, repairs and gas) Health (including insurance premiums) Personal insurance premiums (life, long-term care) Entertainment and travel Other expenses

6 Risks That You Face at Retirement

6 Risks



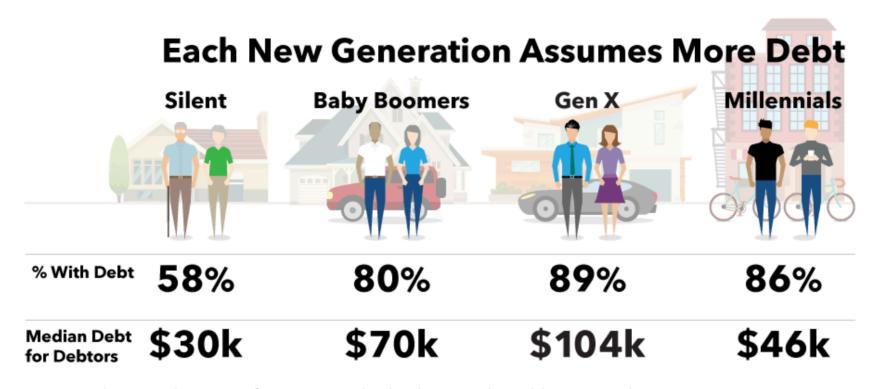
U.S. Consumer Debt Timeline



Source: Federal Reserve Bank of St. Louis.

It has never been Easier to Borrow Money

And we get Deeper and Deeper



Source: "The Complex Story of American Debt" by the Pew Charitable Trusts, July 2015.

5 ways to reduce the impact of debt in retirement

- Budget during your working years, so that as many major and emergency expenses can be managed through savings as possible.
- Stick to the budget, so dollar limits are enforced on entertainment, food, clothes and holiday items you want but may not need.
- Optimize the amount saved for retirement through consistent contributions to IRA and/or 401(k) accounts.
- Contribute to 529 plans to help plan for college expenses and potentially unburden the next generation from large amounts of student loan debt.
- Educate yourself on the costs of debt, which far outweigh the costs of the item financed (even with today's low interest rates).

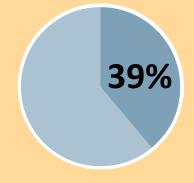
One of Your Biggest Retirement Expenses Could Be Health Care

Many people are retiring early and are enjoying longer, more productive lives. However, they tend to underestimate the potential costs involving health care. In fact, a 65-year-old couple retiring this year will need \$285,000, on average, to cover medical expenses in retirement.

(HealthView Service, 2015 Retirement Health Care Cost Data Report, May 18, 2019)

Did You Know?

Thirty-nine percent of retirees say they are only "somewhat confident" about having enough money to take care of medical expenses.

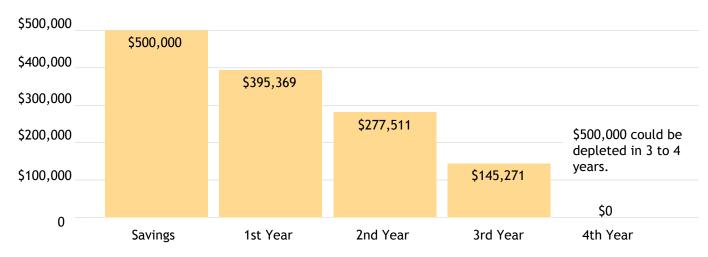


2019 EBRI Retirement Confidence Survey, March 2019

Are Your Assets Protected? Long Term Care Insurance

You have saved diligently and built your retirement nest egg, but without Long Term Care Insurance (LTCI),* a long-term care event may have a substantial impact on your retirement savings. LTCI can help protect your assets and maintain your financial independence. Take a look at the potential impact a long-term care event could have on your financial bottom line:

Potential Impact of Long Term Care Expenses



This example is for illustrative purposes only. Current Long Term Care costs national average \$91,250 per year for a private room in a nursing home according to a Genworth Financial 2015 Cost of Care Survey conducted by Carescout. Chart assumes 6% earnings (nominal, compounded monthly), a withdrawal by spouse of \$40,000 each year, plus 5% simple inflation, 5% nursing home cost inflation each year and the cost of the nursing home withdrawn at the beginning of each year.

*Long term care is not available in Canada.

Taxation-What Should You Spend First

You are ready to retire and need to make withdrawals from your retirement savings. Which assets do you spend first? Generally, to make your money last the longest, a good rule of thumb is to spend down your assets in the following order:

Taxable assets such as stocks and non-qualified mutual funds because you pay taxes each year on the dividends and capital gains. By spending these assets first, your retirement assets continue to grow tax-deferred or tax-free.

Tax-deferred assets such as traditional IRAs (RRSPs in Canada), variable annuities and other qualified retirement plans because you want these accounts to grow tax-deferred for as long as possible. You will pay taxes on these assets upon withdrawal.

Tax-free assets such as Roth IRAs and Roth qualified retirement plans, and Tax Free Savings Accounts (TFSAs) in Canada. You would spend these last so that they could continue to grow tax-free for as long as possible. Typically these assets are withdrawn tax-free.

Note: Everyone's situation is different and you are encouraged to consult a tax professional. Withdrawals before age 59 ½ may be subject to a 10% penalty.

Market Risk

Once you retire, you should continue to diversify your portfolio in retirement just as you did while you were still working. The fact is, no one can be sure whether he or she will retire in a bull market or a bear market.

Bull vs. Bear

• A **bull market** is a prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as a result of an economic recovery, an economic boom, or investor psychology.

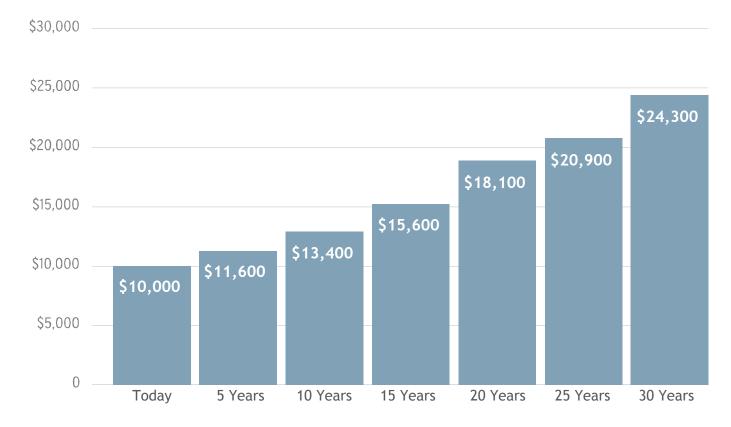
Bull vs. Bear

• A bear market is a prolonged period in which investment prices fall, accompanied by widespread pessimism. Bear markets usually occur when the economy is in a recession and unemployment is high, or when inflation is rising quickly.

Inflation Risk

Inflation is a rise in the general level of prices over time which can erode your money's purchasing power. It may also refer to a rise in the prices of a specific set of goods or services.

Income Required to Keep Pace with Inflation



^{*}Chart assumes inflation rate of 3% per year.

Inheritance and Probate Risk

• Retirement Plans avoid probate • Annuities avoid probate • Non-Qualified Mutual Funds probate • Living Trust • Estate Taxes



Recap

4 Key Building Blocks of a Confident Retirement

- 1. Living: Are essentials covered? Retirement confidence hinges on having a high degree of certainty that day-to-day necessities such as food, housing, transportation and health care can be paid for. Investors should review protected and non-protected income sources for sustainability of lifetime income.
- 2. Lifestyle: What are your optional expenses? The lifestyle block includes discretionary spending the spending you can live without, if necessary, such as travel, spending on grandchildren, dining out and entertainment. What constitutes a lifestyle expense will vary from retiree to retiree, as will their comfort level with variations in income and spending as their lifestyle evolves over retirement.

4 Key Building Blocks of a Confident Retirement

- 3.Emergency: Do you have a cash cushion? An emergency fund can provide retirees with more confidence in their ability to weather unexpected market, health or household expenses. Investors should plan for the unexpected and have ample cash and/or more readily liquid reserves on hand.
- 4. Legacy: Do you plan to pass on your wealth? For some, leaving a legacy is a defining goal of a wealth planning strategy. Many others simply plan to leave behind "whatever is left." Assets to support legacy, living and lifestyle are often invested together in a single portfolio designed to balance income, growth and capital preservation objectives.

CASE STUDY

Harry and June

Retiring couple: 65 years old; in good health

Income

Social Security \$28,000 Retirement portfolio **solution needed**

Assets

Emergency savings	\$45,000
Retirement assets	\$1,000,000
House	\$500,000

Annual spending

Living expenses	\$40,800		
Lifestyle expenses	\$27,200		



This hypothetical scenario is shown for illustrative purposes only, is not indicative of any specific investment and does not reflect the impact of fees, expenses or taxes that may be owed.

Sources: Capital Group, Building Blocks for Retirement Income, white paper, 2019.

Putting the Building Blocks into Action

- What is the optimal withdrawal rate for a couple's retirement portfolio? In this hypothetical example, Harry and June used the four building blocks framework when they discussed their spending goals and available resources with their advisor.
- Their annual basic living expenses are \$40,800. They would like to set an objective to achieve 100% confidence in meeting these essential living expenses over their lives.
- They desire \$27,200 annually for their lifestyle expenses in retirement. Since they have more flexibility in achieving this spending goal, they agree to be 75% confident of reaching it, given that the portfolio needs to balance income, growth and asset preservation.
- They have cash savings of \$45,000 in their emergency fund for any unforeseen expenses.
- They would like to leave a legacy for their children, which would include the family home valued at \$500,000.
- Their \$1,000,000 portfolio would need to generate \$40,000 (\$68,000 less \$28,000 from Social Security) to cover both their living expenses and desired lifestyle spending — a 4% withdrawal rate.

Retirement Plan Choices

	Bank	Indexed Annuity	Structured Annuity	Variable Annuity	Mutual Fund
Insurance	FDIC Insured	Principle Guaranteed Income Guaranteed by Insurance Company	Downside Protection by Insurance Company	Income Guaranteed by Insurance Company	No Guarantees
Cost of Insurance and Expenses	7%	5%	No Fee	3%	1%
Taxation	Ordinary Income	Tax Deferred 59 1/2	Tax Deferred 59 1/2	Tax Deferred 59 1/2	Taxable Capital Gains Dividends

Annuities Explained

- An annuity is a contract between you and an insurance company in which you make a lump-sum payment or series of payments and, in return, receive regular disbursements, beginning either immediately or at some point in the future.
- Life insurance pays an individual's loved ones after he or she dies.
- Annuities take payments upfront then dole out a lifelong income stream to policyholders until they die.
- The goal of annuity is to provide a steady stream of income, typically during retirement.
- Funds accrue on a tax-deferred basis, and can only be withdrawn without penalty after age 59½.

Types of Annuities

- Annuities come in three main varieties: fixed, variable, and indexed. Each type has its own level of risk and payout potential.
- Fixed Annuities pay out a guaranteed amount. The downside of this predictability is a relatively modest annual return, generally slightly higher than a CD from a bank.
- Variable Annuities provide an opportunity for a potentially higher return, accompanied by greater risk. In this case, you pick from a menu of mutual funds that go into your personal "sub-account." Here, your payments in retirement are based on the performance of investments in your sub-account.
- Indexed Annuities fall somewhere in between when it comes to risk and potential reward. You receive a guaranteed minimum payout, although a portion of your return is tied to the performance of a market index, such as the S&P 500.

Retirement Allocations

For people nearing retirement (less than 10 years) who have a good nest egg consider an asset allocation as follows:

- 50% Balanced
- 30% Growth& Income
- 10% Growth
- 10% International

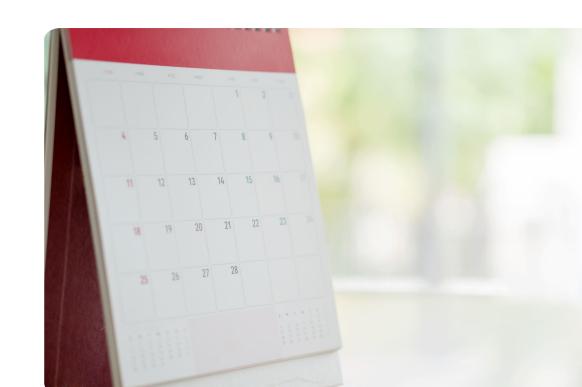
For people at retirement consider an asset allocation as follows:

- 75% Balanced
- 25% Growth& Income

Things every you should know about the SECURE Act

 Savers can wait until age 72 to take required minimum distributions

• The new age threshold applies to individuals who reach age 70½ in 2020 or later. Those who turned 70½ in 2019 will not be able to take advantage of the new law and will still need to take required distributions on the previous timeline.



Thank You for Attending- We can Help You.

- If you need help with anything that we covered tonight or if you have questions be sure and reach out to the person that invited, you through the private link. Text or email and they will follow up with you.
- Do you have a friend or family member that would benefit from this information?
 Forward your private link that you received and encourage them to register for next week.
- Lastly Do you need a work from home solution to earn extra Income? Ask the person who invited you to send you a link to "Join Our Team Webinar"