



Making Retirement Add Up for You



Research Triangle
Chapter
December 9, 2023

presented by
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FINANCIAL PLANNING “WHAT IFs?”

Financial Planning “What Ifs?”

- 1. What if inflation is higher for longer?**
- 2. What if investment returns are impacted by a difficult economic environment or wildcard event?**



Inflation's Impact on You

1. SFG's Analysis of Dozens of Client Budgets

- Most of our clients are subject to 1-2% less inflation than the CPI numbers.
- High impact areas include food and shelter (includes contractor costs).
- Moderate impact areas include eating out, buying a new vehicle (adjusted for quality upgrades) and energy, which has fluctuated wildly.
- Low impact areas include high supply/lower demand areas like lawn maintenance or technology induced deflation (e.g.: Wi-Fi and cell services).

2. Lifestyle Inflation

- One of the biggest impacts on our clients – examples include upgrading their travel after the pandemic lockdown.
- Major impact is the number of older friends getting sick or dying. “need to do this while we can.” While statistically the numbers are low (in general, people are living longer and healthier), they are meaningful for our clients.
- Guardrail strategy: Lifestyle inflation can be adjusted if times get tougher, although many older clients would still want to travel while their health permits.



Case Study Scenario Assumptions

Bear Market 2023/24 – Portfolio Declines 10%

Inflation Persists

Bear Market 2023/24 – Portfolio Declines 10%/Inflation Persists

Bear Market/Inflation Persists and Downsize Home

Bear Market/Inflation Persists and Work PT

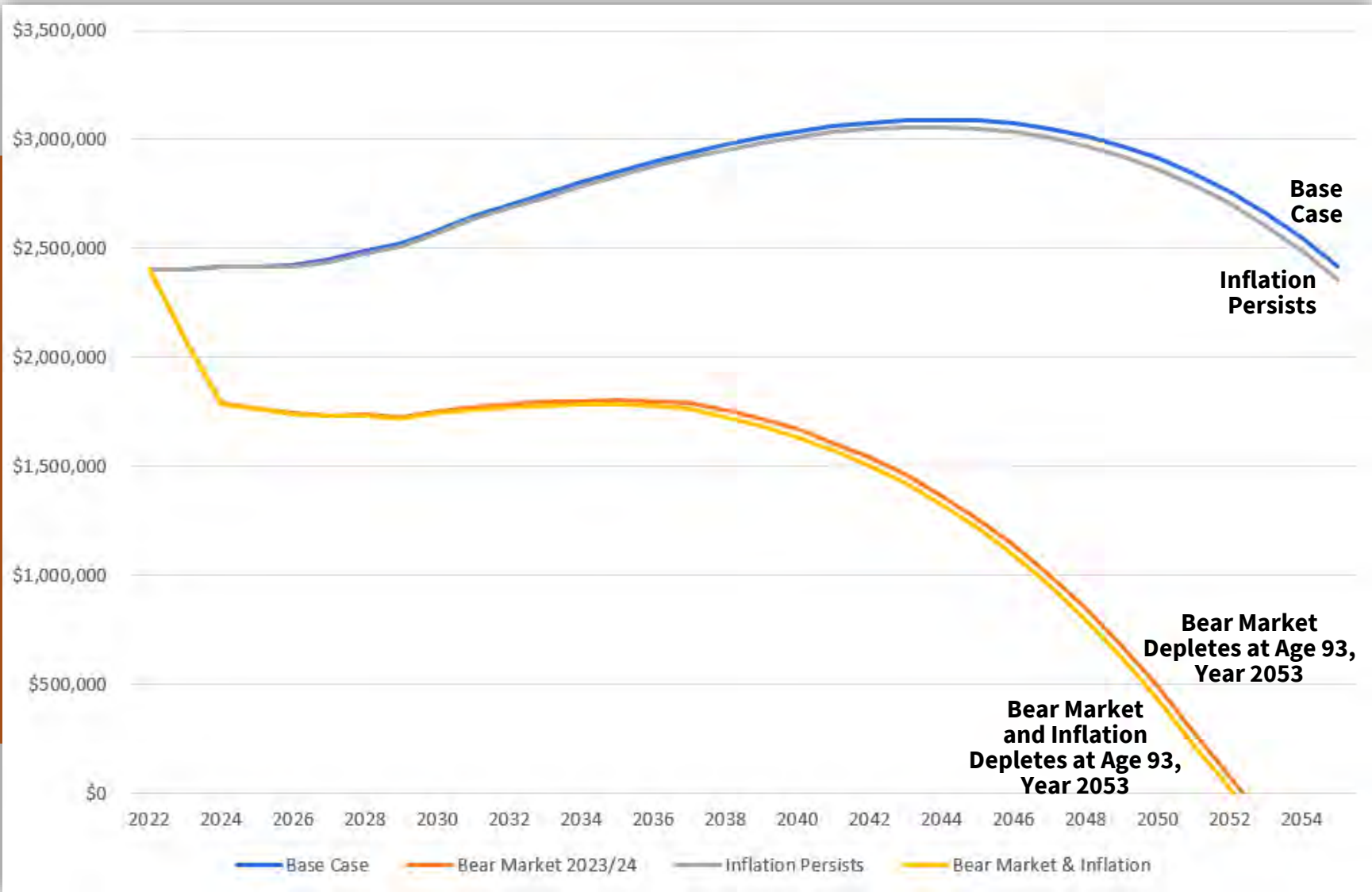
Bear Market/Inflation Persists and Combined Levers

For an all-inclusive list of assumptions and disclosures, as well as full reports, please see [Financial Independence Roadmap®](#).



Factors Out of Your Control

Robert and Shannon Sample Portfolio Assets

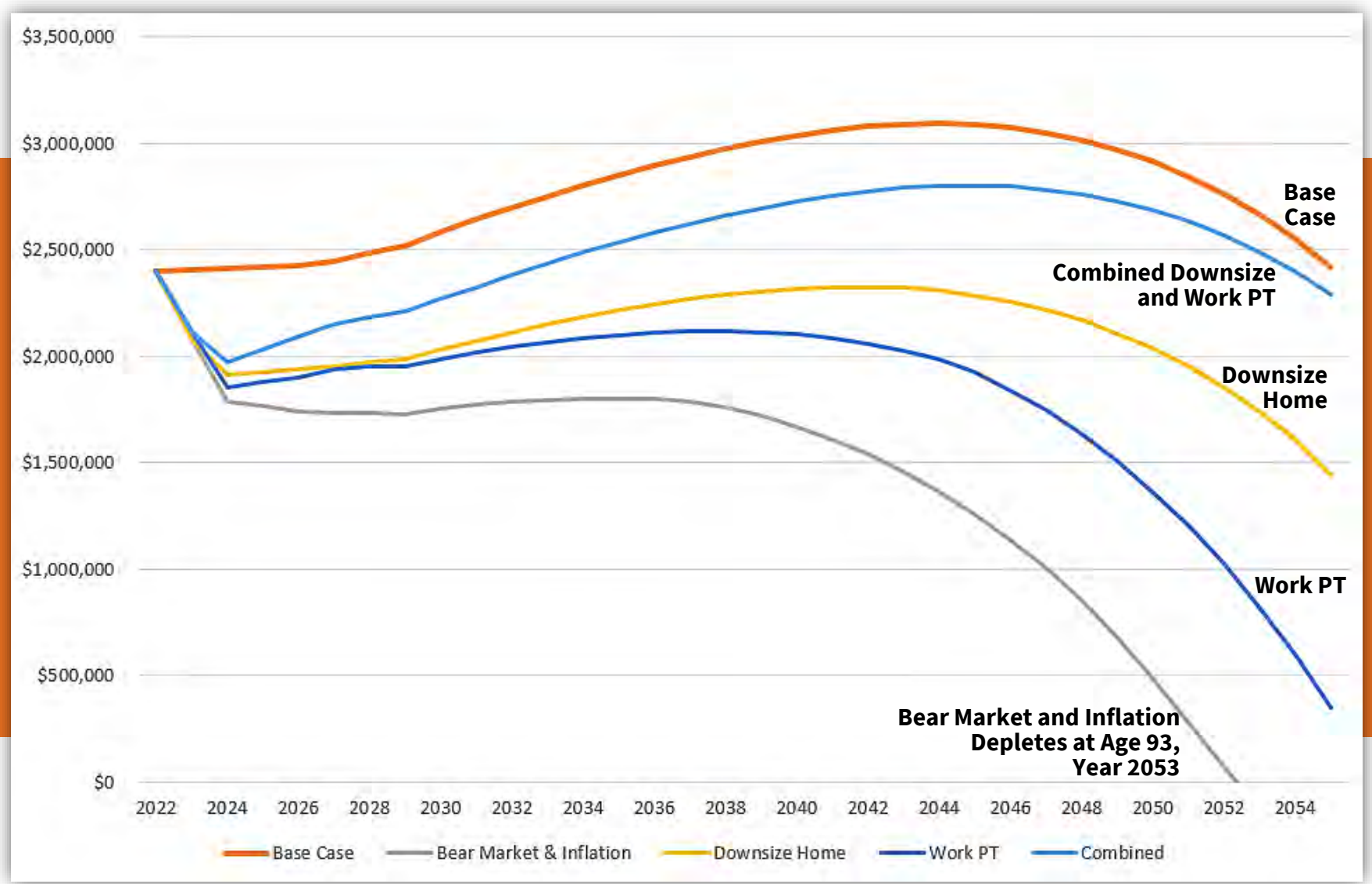


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Levers In Your Control

Robert and Shannon Sample Portfolio Assets



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Case Study Goals and Assumptions

Financial Planning Goals

- Determine if Robert and Shannon have the financial ability to withstand a potential bear market at the beginning of retirement.
- Evaluate the impact of extended inflation.
- Determine opportunities available to minimize risk using expenses and income in retirement.

Assumptions for Base Case

Basics:

- The plan is assumed to start January 1, 2023.
- Life expectancy for Robert and Shannon is assumed to be age 100.
- Robert and Shannon remain residents of North Carolina throughout the plan.
- Federal tax rates reflect the Tax Cuts and Jobs Act (TCJA) of 2017 being in effect until 2026.

Income:

- Social Security income is projected to increase by 2% annually after the first year of benefits; all other income is projected to increase by 3% annually.
- Robert and Shannon retire at the end of 2022 and so no earned income has been included in the Base Case.
- Robert receives a pension benefit from a prior employer of \$24,000 per year beginning at Robert's age 65.
 - This benefit is modeled to have a 0% cost of living adjustment and is fully taxable.
 - This benefit is modeled to have a 100% survivorship benefit.
 - Therefore, if Robert passes away Shannon will continue to receive \$24,000 per year throughout her life.
- Social Security benefits have already begun for Robert's and expected to begin at Shannon's age 70. He chose to take his benefit early and accordingly receives a reduced amount. Shannon is delaying her benefit.
 - Robert's benefit is \$25,000 per year.
 - Shannon's benefit is projected to be \$40,000 per year (delayed benefit).

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Case Study Goals and Assumptions

Assumptions for Base Case, *continued*

Expenses:

- Healthcare and education expenses are projected to increase by 5% annually, while all other expenses are projected to increase by 3% annually. Life expectancy for Robert and Shannon is assumed to be age 100.

| | Amount |
|--------------------------------|------------------|
| Non-Deductible Living Expenses | \$70,000 |
| Home Maintenance Expenses | \$20,000 |
| Medical Expenses | \$22,000 |
| Charitable Contributions | \$2,500 |
| Home Property Tax | \$6,000 |
| Other Property Tax | \$700 |
| Total Annual Expenses | \$121,200 |

- Auto purchases (net of trade-ins) are included in general annual expenses.
- Expenses that are expected to change in retirement:
 - Medical:
 - Current medical expenses and throughout retirement are \$22,000 (increasing with assumed inflation) per year, reflecting a private policy for Shannon and average out of pocket expenses. Once Shannon reaches Medicare age, the cost should reflect the average annual cost of Medicare, a Medicare supplemental policy, a Medicare Prescription drug policy and all out of pocket expenses for both.
 - Note: If above-average medical care is needed expenses may be higher than modeled.
 - Life and disability insurance premiums are discontinued.

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Case Study Goals and Assumptions

Assumptions for Base Case, continued

Savings:

- Robert and Shannon are no longer making any contributions to retirement accounts.
- Excess cash flow is assumed to be saved into an investment account.

Assets:

- Investment accounts earn an annual return of 5% through the end of 2027 and 7% thereafter. This benefit is modeled to have a 0% cost of living adjustment and is fully taxable.
 - Note: When you consider investment returns and inflation together, investment returns are modeled as 2% above inflation through the end of 2026 and 4% above inflation thereafter.
 - Note: Investment returns are modeled net of fees. Therefore, if Robert passes away Shannon will continue to receive \$24,000 per year throughout her life.
- Cash accounts are projected to have no growth.
 - The savings account with an approximate value of \$150,000 is assumed to not be liquidated or invested.
- Real-estate is projected to increase by 3% annually.

Liabilities:

- The primary residence has a 20-year, 4.0% fixed rate mortgage.
 - The current outstanding balance is \$80,000.
 - The monthly principal and interest payment is \$1,818.
 - The mortgage ends in 2026.

Insurance:

- Robert and Shannon's life insurance and disability policies are discontinued in 2022.
- Robert and Shannon have no long-term care policies.

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Net Worth Statement

As of March 8, 2023

| ASSETS | Robert | Shannon | Joint | Total |
|-----------------------------------|------------------|------------------|--------------------|--------------------|
| NON-QUALIFIED ASSETS | | | | |
| <i>Cash Alternatives</i> | | | | |
| Savings Account | — | — | \$150,000 | \$150,000 |
| <i>Taxable Investments</i> | | | | |
| Individual Account - Robert | \$150,000 | — | — | \$150,000 |
| Individual Account - Shannon | — | \$250,000 | — | \$250,000 |
| Joint Account | — | — | \$650,000 | \$650,000 |
| Total Non-Qualified Assets | \$150,000 | \$250,000 | \$800,000 | \$1,200,000 |
| RETIREMENT ASSETS | | | | |
| <i>Qualified Retirement</i> | | | | |
| IRA - Robert | \$700,000 | — | — | \$700,000 |
| IRA - Shannon | — | \$500,000 | — | \$500,000 |
| Total Retirement Assets | \$700,000 | \$500,000 | — | \$1,200,000 |
| Total Liquid Assets | \$850,000 | \$750,000 | \$800,000 | \$2,400,000 |
| REAL ESTATE ASSETS | | | | |
| Beach House | — | — | — | — |
| Primary Residence | — | — | \$700,000 | \$700,000 |
| Total Real Estate Assets | — | — | \$700,000 | \$700,000 |
| Total Assets | \$850,000 | \$750,000 | \$1,500,000 | \$3,100,000 |

| LIABILITIES | Robert | Shannon | Joint | Total |
|------------------------------------|------------|------------|-------------------|-------------------|
| LONG TERM LIABILITIES | | | | |
| Primary Residence Mortgage | — | — | (\$80,000) | (\$80,000) |
| Total Long Term Liabilities | \$0 | \$0 | (\$80,000) | (\$80,000) |
| Total Liabilities | \$0 | \$0 | (\$80,000) | (\$80,000) |

| | | | | |
|------------------------|------------------|------------------|--------------------|--------------------|
| Total Net Worth | \$850,000 | \$750,000 | \$1,420,000 | \$3,020,000 |
|------------------------|------------------|------------------|--------------------|--------------------|

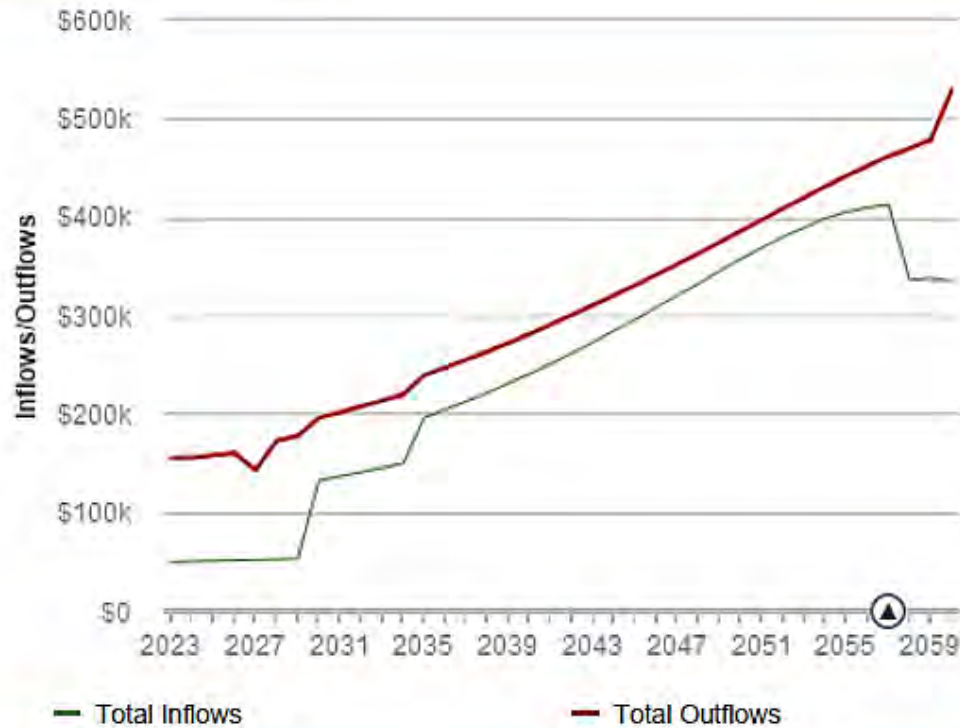
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| | |
|------------------------|--------------------|
| Total Net Worth | \$3,020,000 |
|------------------------|--------------------|

Cash Flow | Base Case (5% / 7%)

The Cash Flow report illustrates your income, savings, expenses, and resulting net cash flow on an annual basis.

Inflows and Outflows



Portfolio Assets



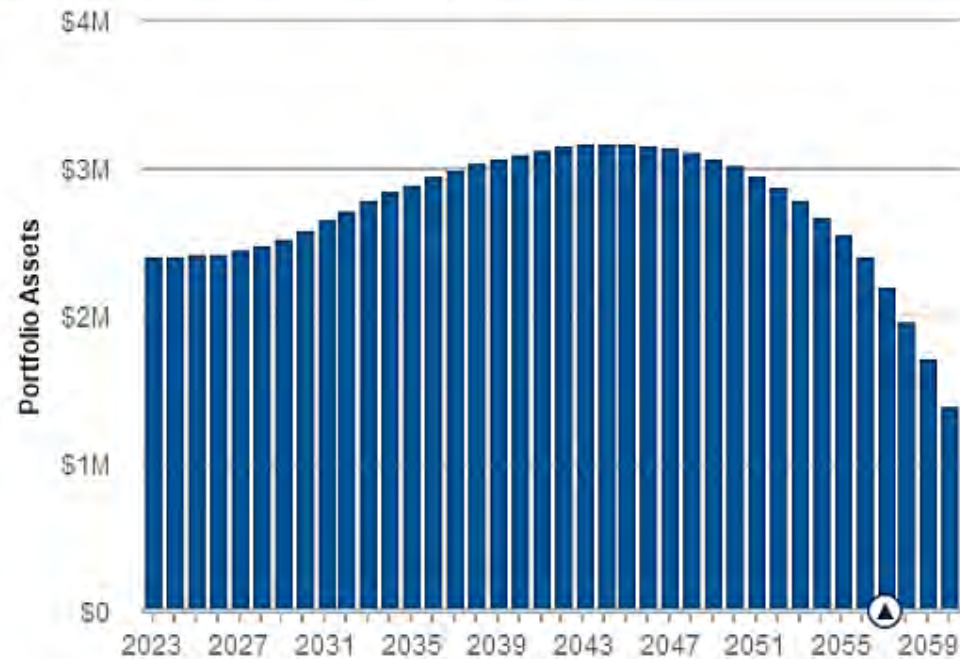
Age Assets Last Until 2060 (age 103/100)

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Cash Flow | Base Case (5% / 7%) vs. 5% Returns

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Portfolio Assets Base Case (5%/7%)

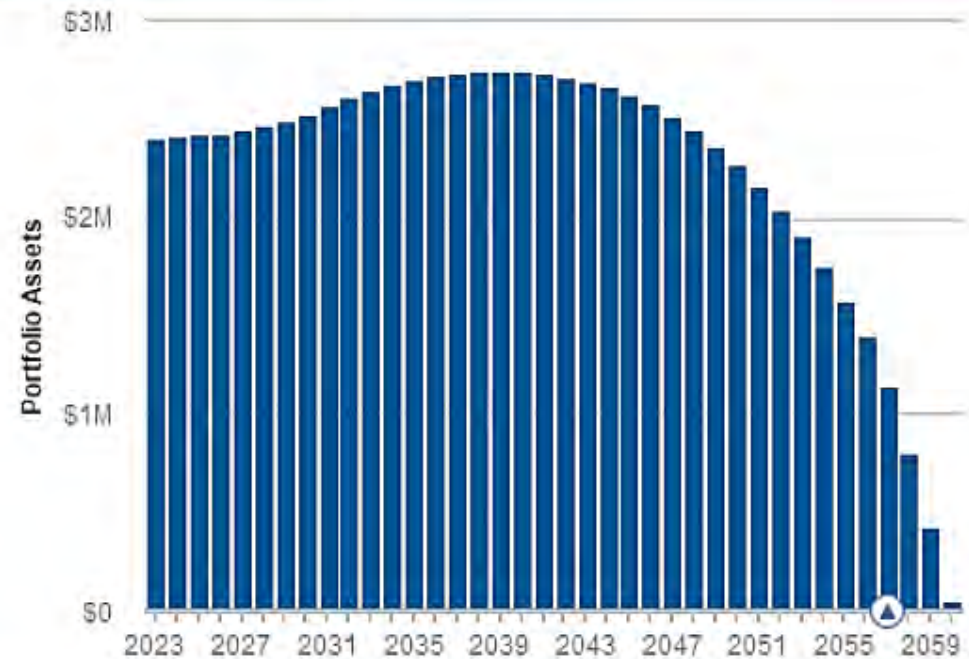


■ Portfolio Assets

▲ Robert - End of Life - 2057

Age Assets Last Until 2060 (age 103/100)

Portfolio Assets 5% Returns



■ Portfolio Assets

▲ Robert - End of Life - 2057

Age Assets Last Until 2060 (age 103/100)

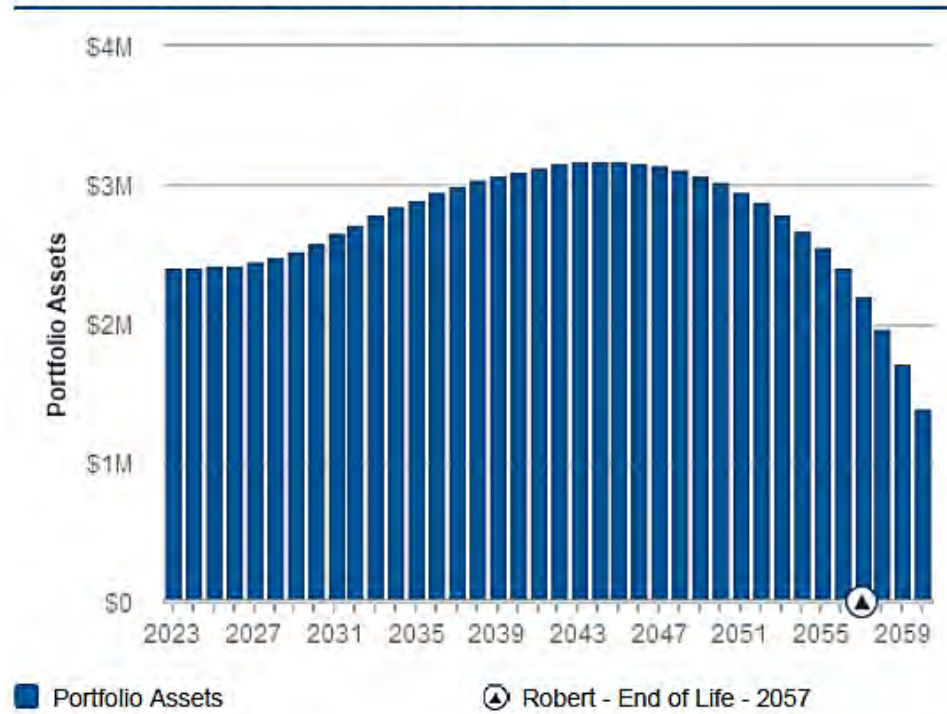
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Cash Flow | Base Case (5% / 7%) vs. Bear Market 2023/24 with Portfolio Declines 10%

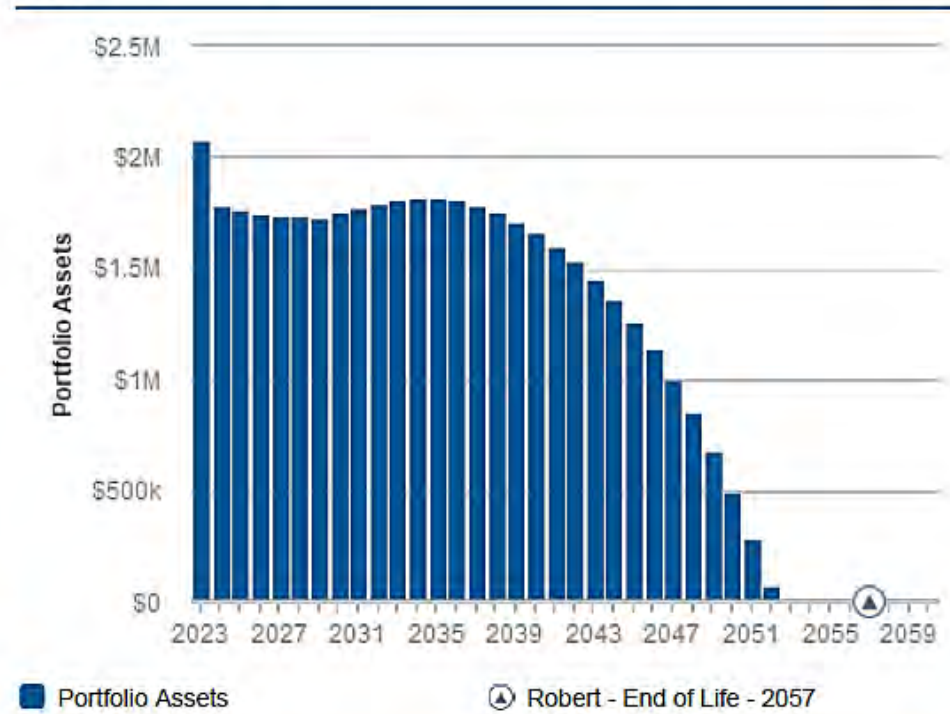
The Cash Flow report illustrates your income, savings, expenses, and resulting net cash flow on an annual basis.

Portfolio Assets Base Case (5%/7%)



Age Assets Last Until 2060 (age 103/100)

Portfolio Assets Bear Market 2023/24 with Portfolio Declines 10%



Age Assets Last Until 2053 (age 96/93)

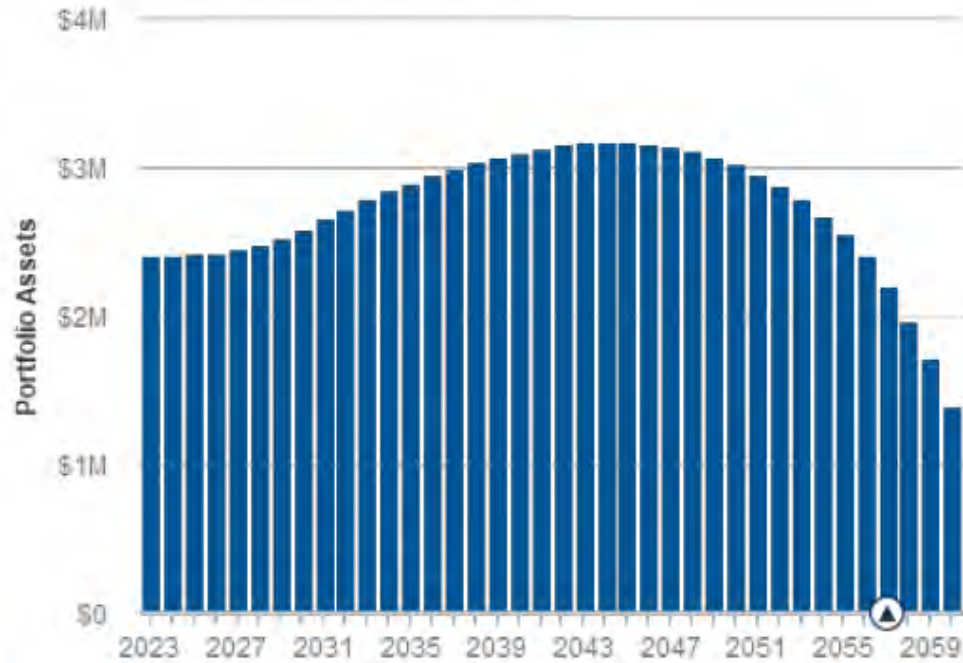
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Cash Flow | Base Case (5% / 7%) vs. Inflation Persists with Inflation Persists

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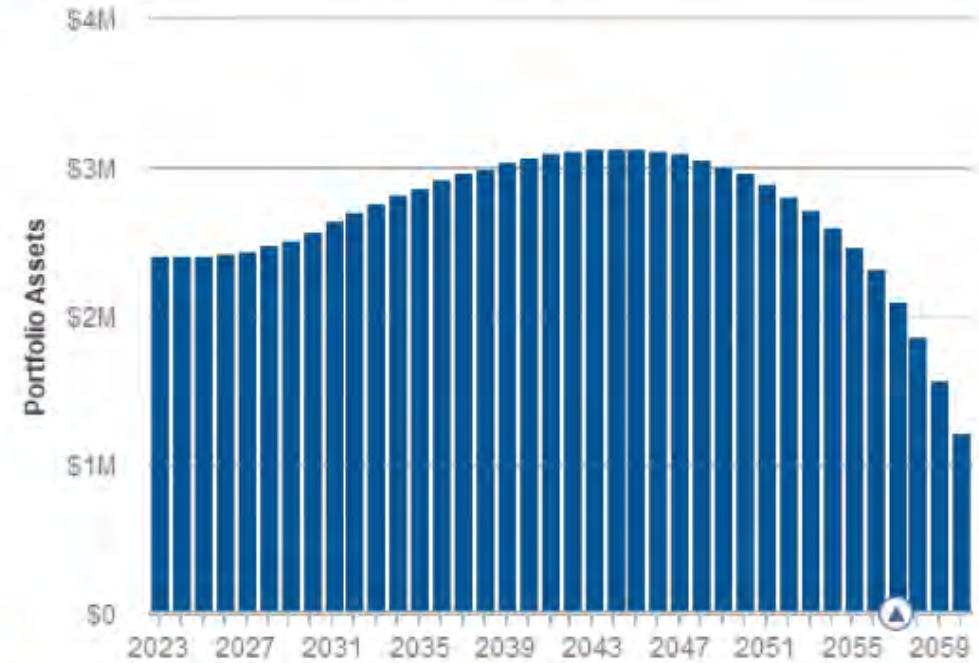
Portfolio Assets Base Case (5%/7%)



■ Portfolio Assets ▲ Robert - End of Life - 2057

Age Assets Last Until 2060 (age 103/100)

Portfolio Assets Inflation Persists with Inflation Persists



■ Portfolio Assets ▲ Robert - End of Life - 2057

Age Assets Last Until 2060 (age 103/100)

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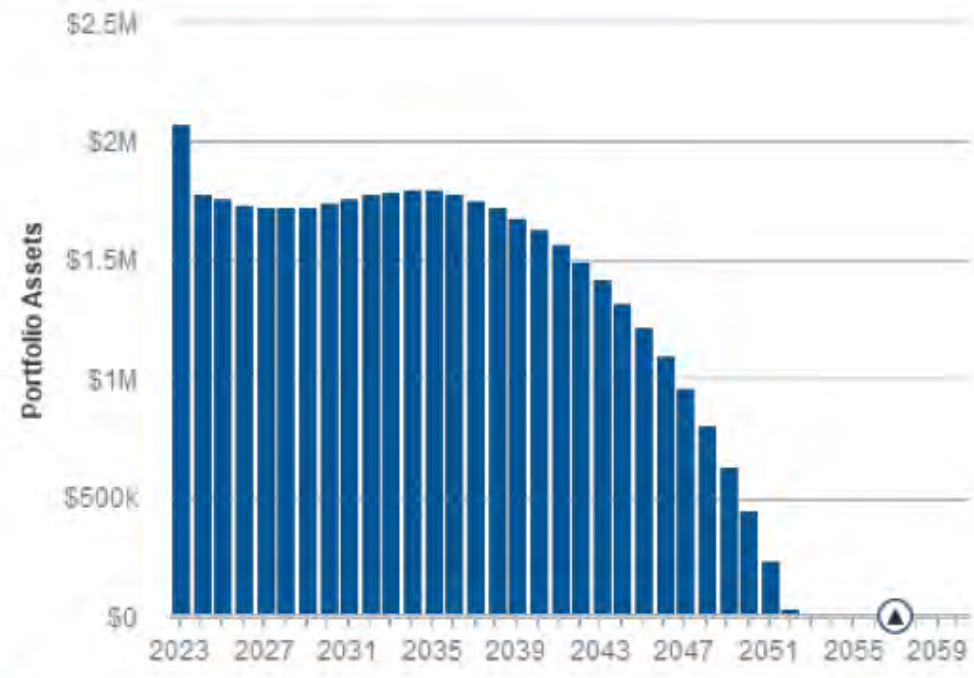


Cash Flow

Bear Market 2023/24 with Portfolio Declines 10% and Inflation Persists vs. Bear Market 2023/24 - Downsize Home with Portfolio Declines 10% and Inflation Persists

The Cash Flow report illustrates your income, savings, expenses, and resulting net cash flow on an annual basis.

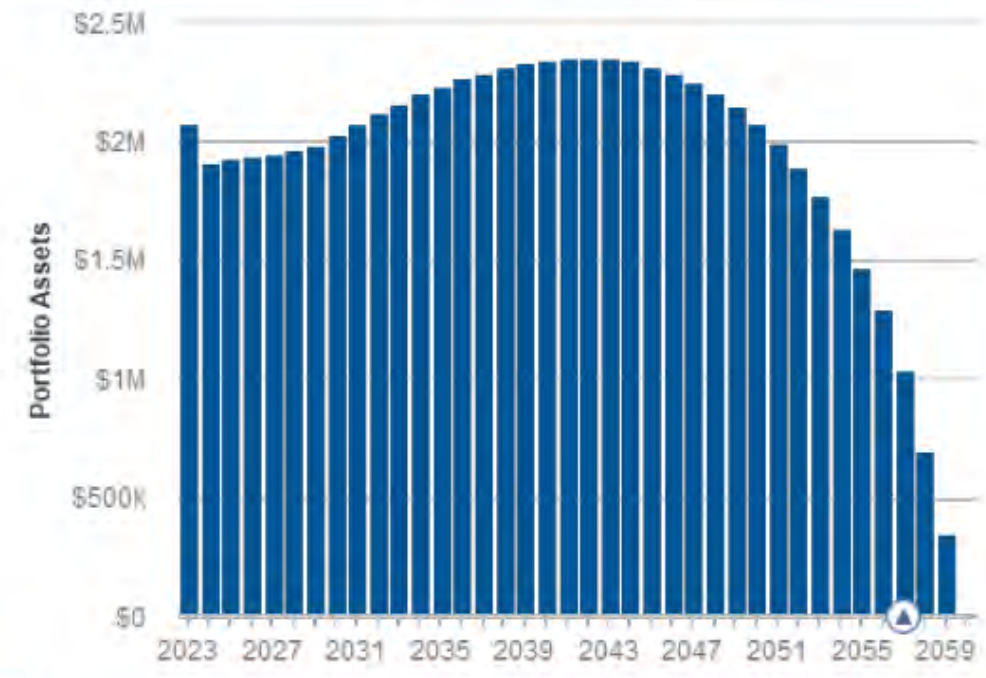
Portfolio Assets Bear Market 2023/24 with Portfolio Declines 10% & Inflation Persists



■ Portfolio Assets ▲ Robert - End of Life - 2057

Age Assets Last Until 2053 (age 96/93)

Portfolio Assets Bear Market 2023/24 - Downsize Home with Portfolio Declines 10% & Inflation Persists



■ Portfolio Assets ▲ Robert - End of Life - 2057

Age Assets Last Until 2060 (age 103/100)

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THANK YOU



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