

Personal Financial Health

What To Look For



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OLLI-GMU Investing Potpourri

Summer Class F202Z Session 3

"Looking at Your Financial Numbers"

Overview

- Assessing your net worth,
- Tracking cash flow,
- Determining retirement savings withdrawals.



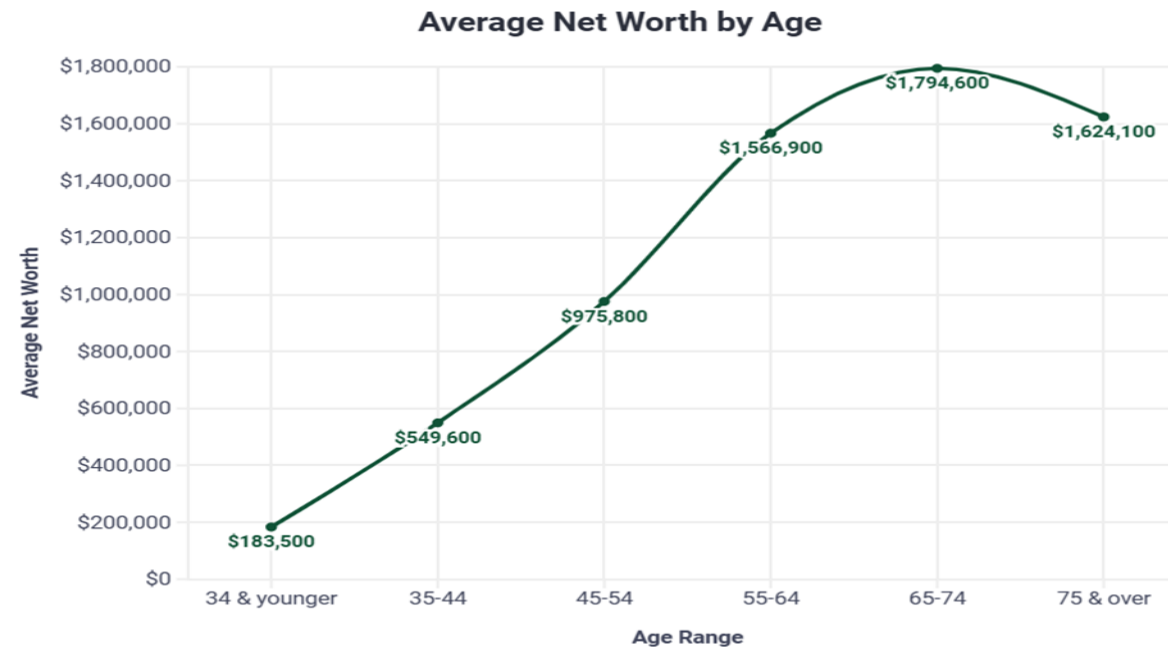
What Counts As Net Worth

- Assets
- Liabilities
- Doing The Numbers



What Counts As Net Worth

Year	Average Net Worth	Median Net Worth
2019	\$868,000	\$141,100
2022	\$1,063,700 (23% increase since 2019)	\$192,900(37% increase since 2019)



Data according to the U.S. Federal Reserve as of 2023



What Counts As Net Worth

The Worth of Net Worth

- Is It Positive or Negative?
- Year Over Year?
- Can You Sleep At Night?
- Keeping Tabs?

Tracking Cash Flow

- Income
- Expenses
- Budgets Rule
- Simplify To Better Manage Cash Flow

1. Checking and savings accounts in one bank for monthly social security and pension checks
2. All bills paid from one checking account via online transactions.
3. Credit cards from same bank
4. Brokerage account is linked to the same bank for ACH transfers; Investment dividends sent to checking; no reinvested.
5. Taxable and IRAs to same brokerage at retirement

1. Taxable account dividends to bank checking account
2. Bills paid via online bill pay. Some of these are autopay. Bills received by email.
3. A few week's expenses in checking account; no savings accounts

1. One checking account for direct social security deposits and one high yield savings account and a CD ladder.
2. One local credit union for an occasional face to face service

Retirement Savings Withdrawals

Let's Say You Have...

\$1,000,000

How To Make It Last?

Retirement Savings Withdrawals

4%

Starting Date	Ending Date	Starting Value	Ending Value	Total Portfolio Withdrawals
1929	1958	\$1,000,000	\$1,515,146	\$1,319,987
1973	2002	\$1,000,000	\$2,311,188	\$3,169,706
2000	2017	\$1,000,000	\$915,898	\$891,294

Portfolio: 60% S&P 500 & 40% 5 Year Treasuries, rebalanced annually

Numbers do not account for taxes & fees

Assumes \$40k spending in year one increased by annual CPI thereafter

Vs

4.5%

Starting Date	Ending Date	Starting Value	Ending Value	Total Portfolio Withdrawals
1929	1958	\$1,000,000	\$764,794	\$1,484,985
1973	2002	\$1,000,000	\$251,049	\$3,565,919
2000	2017	\$1,000,000	\$690,221	\$1,002,706

Portfolio: 60% S&P 500 & 40% 5 Year Treasuries, rebalanced annually

Numbers do not account for taxes & fees

Assumes \$40k spending in year one increased by annual CPI thereafter

Retirement Savings Withdrawals

--4% Limitations--

- **A rigid rule.** The 4% rule assumes increased spending every year by the rate of inflation—not on how your portfolio performed
- **Applies to a specific portfolio composition.** Based upon a hypothetical portfolio invested 50% in stocks and 50% in bonds.
- **Doesn't include taxes or investment fees.** Assumes that taxes or fees are an expense that you pay out of the money withdrawn.
- **Assumes a 30-year time horizon.** 30 years may not be needed or likely. According to Social Security Administration (SSA) estimates life expectancy of people turning 65 today is less than 30 years.

Retirement Savings Withdrawals -Life Expectancy-

- Good News Bad News
- The Longer You Live the longer you live
 - One out of three males and one out of two females who are in their mid-50s today will live to be 90.
 - For a couple who is 65 today, there is a 50% chance that one person will be alive at 92.
 - If you have lived to be 65, you will likely live another 20 years, on average.
 - If you live to be 75, the average life expectancy is 88.
 - If you live to be 85, the average life expectancy is 92.
 - And, if you live to be 95, the average life expectancy is 98.

Retirement Savings Withdrawals -Life Expectancy-

- LivingTo100
- Blueprint Income
- LifeSpan
- John Hancock Expectancy Calculator
- Big Life
- Medical Life Expectancy Calculators

Longevity Calculator	Results (Age)	Comments
LivingTo100	100	Requires email address to setup an account to receive your longevity report
Blueprint Income	96	Average is 88
LifeSpan	103	
John Hancock Expectancy Calculator	90	
Big Life	90	
Medical Life Expectancy Calculators	Based on Conditions	Used by doctors for patients with diagnosed conditions

Retirement Savings Withdrawals

30-Year Starting Safe Withdrawal Rate %, by Asset Allocation, 90% Success Rate

Equity Weighting %	10 Years	15 Years	20 Years	25 Years	30 Years	35 Years	40 Years
100	8.3	5.8	4.6	3.8	3.3	3.1	2.9
90	8.6	6.0	4.7	4.0	3.5	3.2	3.0
80	8.9	6.2	4.8	4.1	3.7	3.3	3.2
70	9.2	6.4	5.1	4.3	3.8	3.5	3.2
60	9.4	6.5	5.2	4.4	3.9	3.5	3.3
50	9.6	6.7	5.4	4.5	3.9	3.6	3.4
40	9.8	6.8	5.4	4.5	4.0	3.6	3.4
30	9.9	6.9	5.5	4.6	4.0	3.6	3.4
20	10.0	6.9	5.5	4.5	4.0	3.6	3.3
10	9.9	6.9	5.4	4.4	3.9	3.4	3.2
0	9.7	6.7	4.2	4.3	3.6	3.2	2.9

Source: Morningstar. Data as of Sept. 30, 2023.

Retirement Savings Withdrawals

-Other Methods-

Approach	Pros	Cons	Best For
TIPS Ladder	<ul style="list-style-type: none"> ▶ 100% success rate ▶ Delivers steady "paycheck equivalent" throughout retirement ▶ Lowest cash flow volatility of any method, along with base case 	<ul style="list-style-type: none"> ▶ No upside; withdrawal rate can never be increased without future decreases ▶ Ending portfolio values are lowest of any method 	Retirees who seek a relatively high withdrawal rate with 100% assurance, while not being worried about either longevity risk or bequeathing a legacy
Forgo Inflation Adjustment	<ul style="list-style-type: none"> ▶ Cuts in real spending, while modest, are cumulative and allow for meaningfully higher starting withdrawal rates ▶ Typically results in healthy ending portfolio value 	<ul style="list-style-type: none"> ▶ Delivers lower lifetime withdrawal rates than most other methods 	Retirees who seek a "paycheck equivalent" approach that allows for slightly higher starting withdrawal percentage than the basic system of fixed real withdrawals
RMD	<ul style="list-style-type: none"> ▶ Supports the highest lifetime withdrawal rate of any method ▶ May save time since retirees still need to calculate RMD amounts and take distributions for RMDs even if they follow another method 	<ul style="list-style-type: none"> ▶ Leads to the highest cash flow volatility of any method ▶ Ending portfolio values are lower than most other methods 	Retirees with shorter-than-average life expectancies and/or those who can cover most of their fixed living expenses from nonportfolio income sources such as Social Security or a pension
Guardrails	<ul style="list-style-type: none"> ▶ Supports the highest starting safe withdrawal rates across most allocations ▶ Lifetime withdrawal rates are also substantially higher than other methods 	<ul style="list-style-type: none"> ▶ More complicated than other methods ▶ Results in far higher cash flow volatility than most other methods ▶ Typically leads to lower ending portfolio value than most other methods 	Retirees who prioritize maximizing spending over leaving a bequest to family or charity
Actual Spending	<ul style="list-style-type: none"> ▶ Results in second-highest ending portfolio value ▶ Delivers higher paychecks early in retirement when retirees are likely to spend the most ▶ Very low cash flow volatility 	<ul style="list-style-type: none"> ▶ Doesn't maximize lifetime withdrawal rates 	Retirees who want to spend more in the early years of retirement and are looking for a high degree of cash flow predictability

Retirement Savings Withdrawals

Spending Methods Summary, 40% Equity/60% Bond Portfolio, 30 Years, and 90% Success Rates

Method	Starting Safe Withdrawal Rate %	Lifetime Withdrawal Rate %	Year 30 Cash Flow Standard Deviation %	Median Year 30 Ending Value (\$ millions)
Base case	4.0	4.0	0.0	1.5
TIPS ladder (100% success rate)	4.6	4.6	0.0	0.0
Forgo inflation adjustment	4.4	4.1	5.4	1.4
RMD	4.4	5.4	43.7	0.2
Guardrails	5.2	4.8	29.4	0.8
Actual spending	5.0	3.9	0.0	1.4

Personal Financial Health



Financial Health Factors	Components	Calculations	Impact Variables	Horizon
Net Worth	Assets and Liabilities	Subtraction	Asset values; Liability commitments	Medium to long term
Cash Flow	Income and Expenses	Subtraction	Income sources and spending	Short term
Withdrawal Rate	Investments	Research and /or Seek professional services	Withdrawal methods	Long term

*“A goal without a
plan is just a wish.”*

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Any Questions?

Personal Financial Health

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- Heart Failure: <https://depts.washington.edu/shfm/?width=2560&height=1440>
- Stroke Risk: <https://www.zunis.org/FHS%20Afib%20Risk%20Calculator.htm>
- Cardiovascular Health: <https://www.zunis.org/FHS%20Afib%20Risk%20Calculator.htm>
- Breast Cancer Assessment Tool: <https://bcrisktool.cancer.gov/>
- Pre-Diabetes Assessment:
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Backup Slides

TIPS Ladder

- Method #1: TIPS ladder (has a 100% rather than 90% success rate). This approach relies upon a guaranteed income source, Treasury Inflation-Protected Securities. A TIPS ladder, which is a self-liquidating portfolio created to support spending over a specific time horizon, can also be an attractive way to generate guaranteed income. Because both principal values and yields of TIPS are adjusted for changes in inflation, they not only provide a steady income stream, but also provide a built-in hedge against unexpected inflation. Creating a TIPS ladder involves buying TIPS with a range of maturities over the entire spending period (30 years, in this case), and then using the proceeds of the bonds as they mature (as well as their ongoing coupon payments) to cover spending needs over time.
- Current yields on TIPS are more attractive than they've been in the past, making the TIPS ladder strategy particularly compelling for this year's study. We estimate that as of Sept. 30, 2023, a 30-year TIPS ladder would support a 4.6% withdrawal rate. That's not only higher than most of the other strategies we tested, but also 100% guaranteed. On the downside, if the retiree uses the TIPS proceeds for spending, there's no potential for residual balances.

Foregoing Inflation Adjustment

- Method #2: Forgoing inflation adjustments following annual portfolio loss. This method begins with the base case of fixed real withdrawals throughout a 30-year time horizon. However, to preserve assets following down markets, the retiree skips the inflation adjustment for the year following a year in which the portfolio has declined in value. This might seem like a modest step, but the cuts in real spending, while small, are cumulative and permanently reduce the retiree's spending pattern.

RMDs

- Required minimum distributions. This is the same framework that underpins required minimum distributions from tax-deferred accounts like IRAs. In its simplest form, the RMD method is portfolio value divided by life expectancy. This method is inherently “safe” and designed to ensure that a retiree will never deplete the portfolio because the withdrawal amount is always a percentage of the remaining balance. However, an RMD system incorporates two key variables for retirement-spending plans: remaining life expectancy and remaining portfolio value. While changes in life expectancy are gradual, the fact that the remaining portfolio value can change significantly from year to year adds substantial volatility to cash flows.

Guardrails

- Guardrails. The guardrails method sets an initial withdrawal percentage, then adjusts subsequent withdrawals annually based on portfolio performance and the previous withdrawal percentage. The guardrails attempt to deliver sufficient—but not overly high—raises in upward-trending markets while adjusting downward after market losses. In upward-trending markets, in which the portfolio performs well and the new withdrawal percentage (adjusted for inflation) falls below 20% of its initial level, the withdrawal increases by the inflation adjustment plus another 10%. To use a simple example, let's say the starting withdrawal percentage is 4% of \$1 million, or \$40,000. If the portfolio increases to \$1.4 million at the beginning of Year 2, the retiree could automatically take \$40,000 plus an inflation adjustment—\$40,968, based on a 2.42% inflation rate. Dividing that amount by the current balance—\$1.4 million—tests for the percentage. The amount of \$40,968 is just 2.9% of \$1.4 million. As that 2.9% figure is 28% less than the starting percentage of 4%, the retiree qualifies for an upward adjustment of 10%. The new withdrawal amount becomes \$45,065—the scheduled amount of \$40,968 plus the additional 10% of \$4,097.
- The guardrails apply during down markets, too. Specifically, the retiree cuts spending by 10% if the new withdrawal rate (adjusted for inflation) is 20% above its initial level.

Actual Spending

- Historical data shows that spending declines in later retirement years. Inflation-adjusted household spending has historically fallen by 19% from age 65 to 75, 34% from age 65 to 85, and 52% from age 65 to 95. We adjusted the annual spending numbers to match up with these longer-term declines. To reflect this, Method 4 assumes that real retirement spending declines by 1.9 percentage points per year between age 65 and 75; 1.5 percentage points per year between 75 and 85; and 1.8 percentage points per year between 85 and 95.

Long Term Care Cost and Stays

- Costs of a private room in a nursing home:
 - In Virginia, seniors who prefer a private room in a nursing home can expect to pay about \$8,821 per month.
 - Another source suggests that the average cost for a private room in a nursing home in Virginia is \$10,190 per month.
 - A different estimate suggests an average cost of \$226 per day, which equates to about \$82,490 per year.
- Please note that these are average costs and the actual cost can vary based on a variety of factors including the specific nursing home, the level of care required, and other factors.
- Length of stay:
 - The average time spent by a senior in a nursing home or an assisted living facility can vary greatly depending on individual health conditions and needs. Here are some general estimates:
 - The average length of stay in a nursing home is unique to each senior, but residents typically stay for around 3.2 years, with 20% requiring care for five years or longer.
 - For assisted living, the average length of stay is about two years. However, the length of stay can range from a few months to several years.
- These averages are not specific to Northern Virginia, but they provide a general idea of what to expect.
- Bottomline 2024 average numbers: \$6000 - \$10,000/ month for 2 – 3 years. That's \$144,000 - \$240,000 for 2 years or \$216,000 - \$360,000 for 3 years.

Memory Care

- Costs of a stay in a memory care unit in Northern Virginia:
 - Varies depending on several factors, including the location, the level of care required, and the amenities offered by the facility. Here are some estimates for the average cost:
 - Memory care in Virginia can range from \$4,000 to \$7,000 per month.
 - The average cost of memory care per month in 2024 in Virginia is \$6,877. This puts Virginia slightly higher than the national average of \$5,884.
 - In Richmond, one of the least expensive costs in the state, the average is \$5,433 per month. Memory care facilities in Arlington charge \$5,538 per month.
 - Length of stay
 - The average length of stay in a memory care facility can vary greatly. However, here are some general estimates:
 - The average stay in a memory care facility is typically 2-3 years.
 - However, some seniors remain in a community for 10 years or longer.
 - These averages are not specific to Northern Virginia, but they provide a general idea of what to expect.
 - Bottomline for memory care in Virginia: \$6,000/month with stays 2-10 years. That's \$144,000 to \$720,000